

Biting the hand that feeds it

Hollywood and the anticapitalist mentality

by Christopher J. Boyd

The tragic transformation of Anakin Skywalker into the feared and despised Darth Vader in the latest Star Wars saga, *Revenge of the Sith*, marks, in only ways creator George Lucas can capture, the return of the super-villain.

But as Darth Vader finds his way into the pantheon of evil doers in silver screen history, he might find that he sits low on the pedestal – nudged aside by another dastardly miscreant: the evil corporation.

Long hospitable to the countercultural meme about the evils of capitalism, Hollywood, which ironically is one of the most successful examples of big business in America, has ratcheted up its war against the dreaded profit motive. One of the most famous lines ever uttered in Hollywood was delivered deftly by a straight-faced Michael Douglas to a seminar room full of acolytes in Oliver Stone's *Wall Street*, "Greed – for lack of a better word – is good," proclaimed



the corporate raider and bad-boy Gordon Gekko.

Hollywood has a long tradition of producing movies that bash the capitalist system and while it has every right to use film as a medium to criticize the excesses of capitalism, is it truth these artists seek to portray? More likely, it is a complete lack of knowledge and understanding of the virtues of the free-market.

Hollywood is an insular world. Michael Moore is a patron saint, due in no small part to his hefty attempt to remove George W. Bush from office. It is an environment in which long diatribes against the evils of corporate culture are most welcome. With the Left's ongoing strategy of pursuing class warfare, large successful corporations have become an easy target. Remember that Michael Moore's grand debut on American consciousness came with his satiric look at the downsizing of General Motors in *Roger and Me*.

Despite the failure of communism, the slow pace of economic growth in welfare states and the triumph of the market system across the world, Hollywood collectively takes its cue from academic anticapitalists such as historian Howard Zinn, linguist Noam Chomsky and radical theorist Ward Churchill. Box office gratification isn't enough either. Most Hollywood

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BHI takes findings on interstate competitiveness to State House

While it consistently ranks as a major league high-technology state and center of finance, Massachusetts must persistently "play to win" if it wants to sustain economic growth and a high level of per capita income. That's the message delivered by several participants at The Beacon Hill Institute's "Playing to Win in Massachusetts" conference on April 25 at the State House.

Building upon BHI's trendsetting Metro and State Competitiveness Reports, the conference identified the prospective "obstacles to our competitiveness": namely housing, transportation, human capital and business

and government collaboration. The event sought to bring together a forward-thinking group of academics, business leaders, legislative aides and elected officials.

"Competitiveness is a long-term concept," said Senior Economist Jonathan Haughton. "The fundamentals here remain (strong) but those could be nullified quite quickly by the high cost of housing."

Director of Research John Barrett underscored the importance of developing and retaining the region's advantage in human capital as policymakers worry about the increasing rate of "brain drain" due in part to housing costs. He also spoke of the need for public and private partnerships.

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PLAYING TO WIN - State Representative George Peterson delivers opening remarks at BHI's recent State House conference on competitiveness as Director of Research John Barrett (L), Mass. Department of Business and Technology Director Renee Fry and BHI Senior Economist Jonathan Haughton wait to offer their remarks on how to promote the right mix of policies to keep the Bay State on top.



The scaffolds from which we face ubiquitous uncertainty

Bookmark*Understanding the Process of Economic Change,*

by Douglass C. North, Princeton University Press, 2005, 187 pages.

Reviewed by Frank Conte

Along with fellow economic historian Robert W. Fogel, Douglass C. North was awarded the 1993 Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel. North's award was remarkable in at least one respect: where more recent winners of the Nobel Prize in economics were predominately noted for their technical and mathematical sophistication or their dedication to "blackboard economics," North's award signaled the growing influence of the New Institutional Economics — an interdisciplinary school of thought that combines economics, law, history, sociology and increasingly, as of late, cognitive science. Two years earlier, the committee awarded Ronald Coase whose work explored the significance of transaction costs and property rights — analytic tools of New Institutional Economics.

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Like many economic historians, North asks: why do some nations prosper while others fail miserably? Why do some economies evolve over time and others fail to mature? What factors account for development and progress? These questions beget others such as: How well do we understand reality? How do beliefs get formed? Who's beliefs matter and how do individual beliefs aggregate into belief systems? How do they change?

North suspects that the "the incentive structure embedded in institutions" has a lot to say about these questions. In his efforts to build a theory of economic change, North looks beyond neoclassical economics, whose "elegant analytical tools cannot prescribe policies that will induce development." Such tools say much about supply and demand in a frictionless setting but they can't explain why economies evolve.

"Institutions form the incentive structure of a society and the political and economic institutions, in consequence are the underlying determinant of economic performance," he says. The metaphor most often used by North and the NIE school is scaffolding.

According to North, neoclassical economics' main conceit is that institutions (which embody certain rules and constraints) and time (which is ever changing or as North likes to say "non-ergodic") are irrelevant to understanding economic growth. That is to say, neoclassicists do not account for any scaffolding.

Some neoclassicists may find this mildly controversial. They simply don't think much about the fact that, for markets to flourish, government at a minimum must clearly define property rights, enforce contracts between individuals and parties, and enforce the rule of law with an independent and credible judiciary.

North takes his research project in a slightly different direction. He insists on modifying the rationality assumption (sometimes belief systems fail to empower man's dominance over physical reality) and extending his analysis by adding the dimension of time. Rational choice is sufficient for "evaluating opportunity costs at the supermarket, but it is wildly incorrect when it comes to making more complicated choices in a world of incomplete information and of

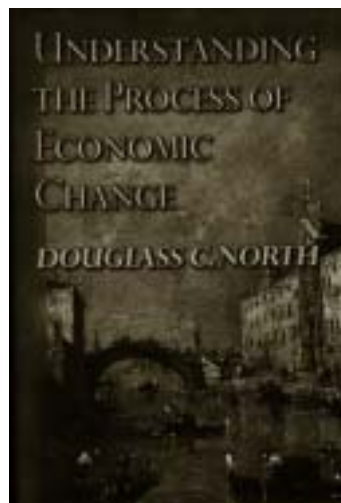
subjective models used to interpret that incomplete information." Choices are often made even in rational states of mind based on "non-rational" considerations. The consequence of this hybrid choice is responsible for the way we erect scaffolds (institutions and organizations, rules and players) and as Friedrich Hayek showed us, test them

for error.

To North, time is the embodiment not only of current experiences but the cumulative experiences of the past that make up a culture. Culture is the result of how societies perceive reality and thus how we make choices. In taking his analysis close to the periphery of cognitive science, North insists that any incentive structure developed over time requires "a theory of the way the mind perceives the world and its functioning so that the institutions will provide those incentives."

In setting out to explain economic change, North is actually very modest. He doesn't come up with a unified theory of what causes economic change; he knows that much empirical work remains to be done on institutions. In the end, he suggests even a limit to "adaptive efficiency." The ability of the

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Georgian Parliamentarians learn about BHI compete studies

On March 21, The Beacon Hill Institute hosted a discussion on competitiveness and its research agenda for a visiting delegation of 10 members of the Georgian Parliament.

Economics professor and BHI Senior Economist Jonathan Haughton presented his work on international competitiveness in Vietnam and Ghana to the parliamentarians. Explaining how nations promote economic growth, Haughton identified the keys to competitiveness that have been a hallmark of BHI's research for the past three years.

Assisted by translators, the Georgians expressed an interest in developing a survey of firms that might identify bottlenecks in the Georgian economy. They suggested that Georgia could also benefit from the insight offered by a competitiveness study as it moves toward reforming its economy.

BHI also introduced the delegation to its work on tax and regulatory policy.

The visit was sponsored by the International Republican Institute (IRI) and was made possible by a grant from the U.S. State Department's Bureau of Educational and Cultural Affairs and the Institute for Representative Government. IRI is a nonprofit organization dedicated to advancing democracy worldwide. Its mission is to initiate and support a wide range of programs to promote and strengthen democratic ideals and institutions abroad. IRI has worked in Georgia since 1997, providing training to thousands of political

party activists, elected officials at the national, regional, and local levels, and civic organizations throughout the country.

In addition to its meeting at BHI, the delegation met with elected state officials, committees, and other public policy research organizations in Massachusetts. The purpose of the visit was to enable the delegates to observe first-hand the intricate processes of reaching a consensus needed to pass legislation.

A former Soviet Republic, Georgia has emerged as a fledging democracy and was one stop of President George W. Bush's recent visit to Eastern Europe as he commemorated the 60th anniversary of the end of World War II in Europe.

In May, more than 100,000 cheering Georgians attended President George W. Bush's speech — one of the largest audiences this president has ever addressed.

"Your courage is inspiring democratic reformers and sending a message that echoes across the world: Freedom will be the future of every nation and every people on Earth," Bush said in speech from Tbilisi's Freedom Square, a landmark once known as Lenin Square.

"You gathered here armed with nothing but roses and the power of your convictions and you claimed your liberty. And because you acted, Georgia is today both sovereign and free and a beacon of liberty for this region and the world."

Georgia's President, the U.S.-educated, 36-year-old Mikhail Saakashvili lauded President Bush for his support. "You stood with us during



SIZING UP THE COMPETITION – Georgian Parliamentarians Marika Verulashvili and David Tkeshelashvili review a handout during BHI's presentation on competitiveness. The lawmakers explored ways to improve their nation's economic position as it emerged from under the shadow of Russia.

our revolution and you stand with us today," Saakashvili said. "On behalf of my nation I would like to say, 'Thank you.'"

Saakashvili is looking toward the West for assistance as he tries to bring reform to a country that gained a reputation for corruption. ❖

State House

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Renee Fry, Director of the Department of Business and Technology, noted that while the business climate in Massachusetts has improved dramatically over the last decade, the Bay State still is tagged with the "Taxachusetts" label. Some longstanding issues like higher unemployment insurance costs need to be addressed. She spoke of ongoing efforts by the Romney administration to increase affordable housing by offering towns incentives.

Jonathan Seelig, Managing Director of Globespan Capital Partners, a venture capital firm in Boston, noted the strength of the state's diversified private sector that drives the state's competitiveness. When it comes to human resources,

technology, business incubation Massachusetts does well but it needs to improve its tax and fiscal policies. However, Seelig noted that some firms are finding it difficult to recruit medium skilled workers and managers because of housing and transportation challenges.

Michael George, CEO of Bowstreet Software and a Suffolk University trustee, spoke of the state's strengths such as a highly skilled workforce when his company needed to expand. In 2003, his firm moved to Tewksbury from New Hampshire, which was attractive because it offered lower cost housing. ❖



REGULATORY ROADBLOCKS – American Alarm and Communications President Richard Sampson underscores the need to streamline the state's bureaucracy at BHI's conference on April 25.

Hollywood

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filmmakers enjoy and appeal to a growing appetite for anti-American audiences (particularly during the Cannes Film Festival).

From Saturday morning cartoons to the blockbusters, studios provide a steady stream of Big Business vilification. Conventional black hat characters (serial killers, sociopaths, flat out psychos) have been forced aside by the evil CEO who predictably undermines workers, pollutes the environment and conspires with the government of the United States to overthrow popularly elected leaders in the Third World.

The most telling film of the anti-capitalist mentality is the highly acclaimed documentary by Mark Achbar and Jennifer Abbott, simply titled *The Corporation*. The idea of a corporation is so intrinsically destructive that Achbar and Abbott compare it to a listless psychopath that meets the definition of a mental illness made by the *Diagnostic and Statistical Manual of Mental Disorders*.

How expansive is this assault on corporate culture? By the age of 18, the average TV viewer has seen businessmen and businesswomen attempt more than 10,000 murders and countless lesser offenses ranging from extortion and bribery to kidnapping and dumping of toxic waste, according to a survey by the Media Institute.

For example, the film version of *The Fugitive* with Harrison Ford involved a plot by an evil drug company profiting from a failed drug. This plot, interestingly, was not in the television series from which the film was originally drawn. The 2004 remake of the *Manchurian Candidate* has as its villain a multinational conglomerate whose revenue exceeds the European Union's and that has designs on controlling the White House, not the original 1962 communist villain.

Recently, economist Donald Boudreaux found himself in the uncomfortable position of censoring what his son should watch. Was it soft pornography or lewd language that alarmed Boudreaux? Neither. What bothered

the usually laissez faire parent-economist was a syndicated episode of *Captain Planet* which featured hellish industrial scenes overwhelming the idyllic life of yesteryear.

"The episode's opening scenes depict river banks crowded with open pipes dumping sludge into already filthy rivers, skylines full of belching smokestacks, and forests clear cut with only stumps showing above the ground," recalls Boudreaux in his blog *Café Hayek*. Naturally, the heroes of *Captain Planet* inevitably encounter an evil businessman "with a raspy voice, sinister laughs, and motivated by pure evil." Yes the businessman is a regular call up from central casting.

The animated *Robots* is another example of anti-capitalist ideology run amuck. Its protagonist Rodney Copperbottom, an affable, boy-wonder inventor, works against a plot by Bigweld Industries to commit what amounts to genocide of older robots. This company was taken over by a MBA-refined and Gekko-inspired corporate tyrant named Ratchet. Becoming aware that an

sionable children. By the time the movie's over the intended message is clear: big business is bad.

Telling the story of how capitalism expands choices at lower costs and in turn expands freedom is lost upon Hollywood's unionized scriptwriters.

Whether it's on the big screen or television, businessmen applying Gekko's vision of the world regularly shoot, slash, bludgeon, poison, blackmail, extort and smear their way to the top. According to a

comprehensive survey of some 620 television shows between 1955 and 1986 by the Study of Social & Political Change, businessmen are more than three times as likely to be portrayed as criminals.

No one argues that all businessmen are squeaky-clean or necessarily better than the population as a whole. The recent accounting scandals are example enough of how the profit motive can lead to ethical lapses.

The crimes that businessmen sometimes do commit – embezzlement, income tax evasion, selling faulty

goods, hiding bad effects of products, anti-trust violations, insider trading – are rarely the ones they are depicted as committing. While the Enron and WorldCom stories of bankruptcy and white collar crimes grabbed headlines, the transgressions committed by these companies account for a minuscule portion of the economy as a whole. Telling the story of how capitalism expands consumer choices at lower costs, and, in turn advances freedom is lost upon Hollywood's mostly unionized script writers.

Most Anti-Capitalistic Movies and Capitalistic Results		
BHI Staff Rank	Movie	Box Office Gross
1	The Corporation	\$ 3,493,516
2	Roger and Me	\$ 7,706,368
3	The Insider	\$ 60,289,912
4	Norma Rae	\$ 22,228,000
5	A Civil Action	\$ 56,709,981
6	Wall Street	\$ 43,848,069
7	Erin Brockovich	\$ 256,271,286
8	JFK	\$ 205,405,498
9	The Manchurian Candidate	\$ 96,079,108
10	Robots	\$ 228,917,918
11	You've Got Mail	\$ 250,821,495
12	Ghost	\$ 505,702,588
13	Bonfire of the Vanities	\$ 15,691,192
14	The Truman Show	\$ 264,118,201
15	The Fugitive	\$ 368,875,760

upgrade campaign is a nasty effort to eliminate competition, Rodney stirs up a revolt that prevails in David and Goliath fashion.

Ironically, *Robots* simply misses the crucial element of the capitalist system - competition. For example, true free markets would allow Rodney to start a spare parts business that would compete with Bigweld Industry's flashy new upgrades. Both would be able to enter and exit the market to meet the needs of their consumers. But such nuances are certainly to be lost on impres-

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Hollywood

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Why the stereotypes?

According to the Pew Research Center for the People and the Press, three-fourths of Americans agree that this country's strength is primarily based on the success of American business, a proportion that has remained unchanged in polls taken over the past 15 years.

Yet public support for regulation has shifted somewhat since the 1990s. In 1994, 38 percent saw government regulation of business as a necessity, according to Pew. By 2002, the percentage had risen to half of all Americans.

In 1996, after a wave of corporate layoffs, opinions about Corporate American were less rosy. In a nationwide poll conducted by the Marist College Institute for Public Opinion, only 19 percent of Americans rated corporations as excellent (3 percent) or good (16 percent) at "really caring about what's good for America"; 43 percent said business did a poor job. Around one-fourth said companies were excellent or good at creating new job opportunities. In addition, 3 in 10 rated companies favorably for providing reasonable wages, salaries and benefits. Often less reported is how the gales of creative destruction (i.e. downsizing and restructuring) made way for greater prosperity later in the 1990s.

Opinion of big business seems to rise and fall with the stock market. At the height of the recession of 1992, 73 percent of Americans told an ABC News poll that large corporations had too much power for the good of the country. By 1996, that number had fallen to 71 percent and at the height of the dot-com boom in 2000, only 63 percent of Americans agreed.

It would be hard to argue that Hollywood, with its tremendous influence on the public imagination, doesn't engender such antipathy toward big business. Who could forget Helen Hunt's famous applause-drawing four-lettered put-down of health maintenance organizations? "Those [blankety-blank-blank] HMOs," Hunt's character in *As Good as it Gets* declares, to which the doctor attending to her son responds, "Actually, I think that's the technical term for them."

That kind of influence can shape the debate and for a time it did.

Wal-Mart prequel: Coming to a theater near you!

More recently the biggest evil-doer is Wal-Mart. But Hollywood's been a bit slow to skewer the big price chopper. Perhaps Hollywood may not want to bite the hand that feeds it. After all, producers have to consider those

Entertainment Company	Employees (Domestic)
Viacom	120,630
Time Warner	80,000
Universal Studios	22,146
Fox Entertainment Group	12,900
The Walt Disney Company	12,000
Sony Pictures Entertainment	5,700
TOTAL	253,376
<i>Source: vault.com</i>	

cheap *Spiderman*, *Toy Story* and *Star Wars* toys and accessories on shelves. (Always low prices!)Thus far, we have been spared a Moore-like documentary on Wal-Mart CEO Lee Scott and a *Norma Rae* - like pro-union movie on under-paid sales associates. But don't be surprised. Wal-Mart is a sitting scapegoat for Hollywood.

Even though it's the largest private employer in the United States, with just over 1.3 million U.S. employees, Wal-Mart has been vilified by the Left, particularly organized labor. Despite paying nearly twice the minimum wage for what amounts to unskilled labor, Wal-Mart is often cast as an exploitative robber baron profiting on the backs of its employees. We are typically sold the story of a single mother struggling to support a family of four on a Wal-Mart salary yet many of Wal-Mart's employees are teen-agers and young adults - not a family's primary wage earner. Also, because it depends on massive imports from China, it is conveniently blamed for the shuddering of Main Street businesses from coast to coast as well as disrupting supermarket chains.

Artists, academics and Hollywood producers know little about how prices are coordinated in a market or how entrepreneurs can best exploit limited information to benefit their customers. A businessman or corporation on the other hand must control costs, know the market, hire good people, effectively advertise, anticipate a competitor's next step, spot the latest trends, and most importantly, re-

member that the customer is always right. The evolution of an enterprise from local to global, from small to big, is a natural process that satisfies the demands of consumers for goods and services. Bigness, no matter how much it may affront our sensibilities for the small and pastoral or days gone by, is not a bad thing. This is a country where it's not a crime to aspire to be the next Bill Gates, Warren Buffet or Michael Dell, but such biographies don't make it on Hollywood's story boards.

In one of his more famous works, *The Anticapitalist Mentality*, the noted Austrian economist Ludwig von Mises writes that it is "solely bigness in business which makes it possible to supply the masses with all those products the present-day American common man does not want to do without."

That's a script for success that Hollywood ought to option.

Christopher J. Boyd is associate editor of NewsLink.

Related web sites and blogs:

Busfilm: "Ars gratia artis." busmovie.typepad.com.

Blogging on how capitalists are portayed in film.

Café Hayek. "Where orders emerge."

cafehayek.typepad.com/hayek. Intellectual blog defending market capitalism.

The Internet Movie Database. "Earth's biggest movie database." us.imdb.com. Useful reference for movies cited in this article.



Company	Employees (Domestic)
Wal-Mart Stores	1,341,500
McDonald's	413,000
UPS	365,500
GM	355,500
Ford	335,000
IBM	317,900
GE	312,500
Kroger	288,000
Target	280,000
Citigroup	261,300
TOTAL	4,270,200
<i>Forbes.com 2003</i>	

BHI state tax revenue estimates hold up

In December of 2003, The Beacon Hill Institute at Suffolk University (BHI) provided a tax revenue forecast before the Legislature's Joint House Ways and Means Committee.

To present its forecast of revenues for the coming fiscal year, BHI economists utilized a combination of regression methods with simulations of its Massachusetts State Tax Analysis Modeling Program (STAMP®). This approach accounts for the effects of tax-rate changes on economic activity, along with information about the effects of cyclical fluctuations in the economy. Other models commonly fail to recognize the effects of tax rate changes and assume a static view of the state economy. BHI'S STAMP attempts to capture the dynamic effects of any tax changes.

As a result of taking a broader view of the state's economy, BHI came closer than any other forecasters for predicting FY 2004 tax revenues. In December 2003, less than halfway through FY 2004, BHI predicted that the Com-

monwealth would receive \$15.532 billion in tax revenues for the fiscal year. (See chart below.) The actual FY 2004 revenue figure came in at \$15.954 billion showing that BHI's forecast was within 2.6% of the actual amount. BHI's estimate proved

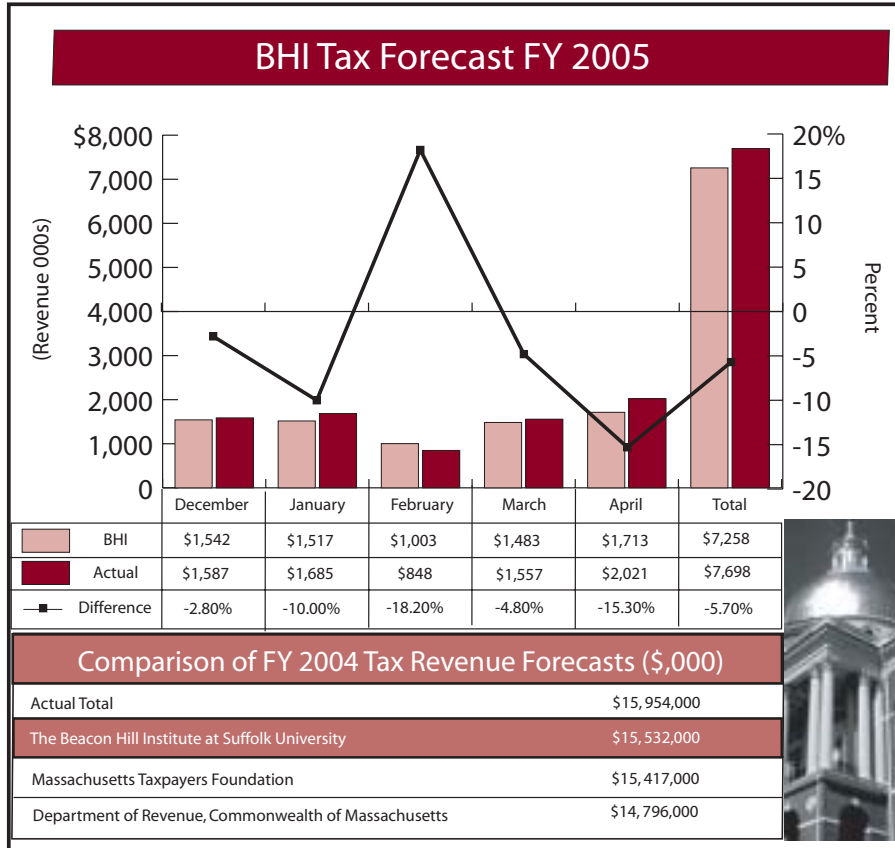
In December 2004, the Joint Ways and Means Committee once again invited BHI to appear before the legislature to offer a tax revenue forecast this time for FY 2005. The following chart nearby shows the

monthly estimates of Massachusetts tax revenues made by BHI as compared to the actual preliminary tax revenues available from the Massachusetts Department of Revenue. As the chart notes, the estimates for each month vary around the actual figures; yet for the cumulative five-month total the BHI estimate remained only 2.33% below the actual tax revenues. However, forecasts remain much an art as they do a science susceptible as they are to surprises.

Recent revenues have exceeded the expectations of all forecasters. Massachusetts collected a record \$2 billion in taxes during April 2005 — an amount not one

forecaster anticipated. This new surge in revenue pushed the BHI five month cumulative forecast to a shortfall of \$440 million or 5.7%. Barring significant tax revenue shortfalls in May and June, the institute's FY 2005 estimate should come in below the actual tax revenue collections. However, by accounting for stronger growth in personal income than other forecasters, BHI was once again able to offer an optimistic estimate closer to actual revenues.

What accounts for the surge in revenue? Observers note that the surge may be due in part to a brief upswing in capital gains taxes — which they warn are unpredictable. Tax-cut critics argue that the recent surge is too volatile to roll back the state's personal income tax to 5 percent. Fair enough. But this phenomenon of surging revenues hasn't stopped the legislature from finding ways to spend the "new" cash. ❖



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BookMark

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United States, for example, to reform and revise its institutions (deregulation and tax reform come to mind) to solve specific economic problems and promote growth is a good example of adaptive efficiency. However, adaptive efficiency, sorely lacking in the Soviet Union, may be of limited use to intractable parts of the world.

When it comes to understanding economic change we currently know three phenomena. The quantity and quality of human beings has improved remarkably (longer lifespan, better food and medicine, greater consumption, more choices, and emigration). Second, the stock of human knowledge has exponentially grown to the point where we, unlike other species, have a tremendous command over nature. Third, we know the importance of incentives and how they are cultivated through patents, copyrights and other laws.

North maintains, "A complete theory of economic change would therefore integrate theories of demographic, stock of knowledge, and institutional change. We are far from having good theories of any one of these three, much less of the three together but we are making progress."

How we make that progress is important and this is certainly a tall order that extends beyond economics. But we can start with what neo-classicists ignored in Adam Smith. We can explain economic change and improve performance if we resolve four stumbling blocks originally identified in Adam Smith's *Wealth of Nations*.

- 1) Successful societies know how to enable impersonal exchange. A certain leap of faith is required to engage in business with people you do not know. Wealth is realized only when we can exploit the gains from large scale, 'impersonal' markets where both parties trust a system of exchange.
- 2) The specialization of knowledge. Knowledge has spillover effects that don't fit nicely into a price system; some way must be found to exploit rents from information. Entrepreneurs must find a way to profit from their ability to cull disparate pieces of information while governments need to foster the "public goods" aspect of research and development.

- 3) Institutions must change to make sure to get the incentives right.
- 4) And markets require governments but "not just any government." North wisely suggests that "institutions that limit the government from preying on the market" are critical to improving performance. History bears him out here.

Taken together we might apply these prerequisites to a developing country. Institutions, more broadly, the rules of the game, must ensure that contracts be enforced between strangers willing to engage in exchange, that institutions find ways such as copyright and patents to dispense knowledge and that any gains be protected by government, which must be restrained. The United States and Western Europe appear to have a rough idea of what it takes. Yet this property rights regime eludes post-Soviet Russia

The modern age has certainly thrown up challenges to economic development; and so too will the revolution in life sciences. As the low marginal costs of creating another publication, song, software program and drug approach zero, such disruptive technologies pose new challenges to any incentive system.

On the other hand the development of open source software such as Linux, the ability of the internet to move data at unimagined speed and the fluidity of capital to flee where it is not treated well certainly point to "new artifactual structures" or property rights regimes. Who gets this right—in the face of egalitarian and anti-free trade pressures — is

poised for success.

North sees economists as hanging onto a body of theory that can't explain economic change. He sees himself a heir to Hayek who called for continuous trials in the face of ubiquitous uncertainty. "Economists have the correct insight that economics is a theory of choice. But to improve the human prospect we must understand the sources of human decision making. That is a necessary condition for human survival."

This book is the result of a career long inquiry into the nature of economic change. North provides us with a compelling case that as the world becomes more complex we ought to find ways to improve our institutions beyond what economic theory currently offers. It is intellectually engrossing and should be of interest to both scholars in both the hard and soft sciences. *Understanding the Process of Economic Change* is a book for serious thinkers.

North maintains that neoclassical analysis doesn't fully explain economic change. To explain it we need to better understand institutions and how we make decisions.

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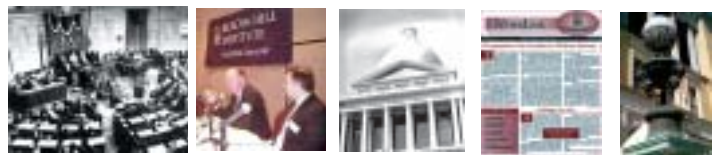
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In Point of Fact

N ever mind, pass the butter

Packing on the pounds is not nearly as deadly as the government thought, according to a new calculation from the CDC that found people who are modestly overweight actually have a lower risk of death than those of normal weight. The Centers for Disease Control and Prevention reported that obesity accounts for 25,814 deaths a year in the United States. As recently as January, the CDC came up with an estimate 14 times higher: 365,000 deaths. According to the new calculation, obesity ranks No. 7 instead of No. 2 among the nation's leading preventable causes of death. The new analysis found that obesity — being extremely overweight — is indisputably lethal. But like several recent smaller studies, it found that people who are modestly overweight have a lower risk of death than those of normal weight. "Study shows government overstated risk of death from obesity," Carla K. Johnson, *Associated Press*, April 20, 2005.

Detroit mayor "just lovin' it"; an insatiable appetite for taxes

Would you like fries with that? Either way, the Detroit city treasury would like a bite. Faced with a \$300 million budget hole, Mayor Kwame Kilpatrick is hoping people in this already heavily taxed city won't mind forking over a few extra cents for their Big Macs and Whoppers. Kilpatrick wants to ask Detroit voters to approve a 2 percent fast-food tax — on top of the 6 percent state sales tax on restaurant meals. The mayor says consumers will barely notice the extra cents at the cash register, but critics say the tax would unfairly burden the poor and hamper economic development. "Just tell him we're going to go to Bloomfield Hills to McDonald's if he puts a tax on it," said 18-year-old Ebony Ellis, referring to an affluent Detroit suburb, as she and four friends ate at a Golden Arches in Detroit. "Detroit mayor ponders tax on fast foods: Facing \$300 million budget shortfall, city may impose extra 2 percent charge," *Associated Press*, May 9, 2005.

The law of unintended consequences revisited

In an era of greater scrutiny, a number of U.S. companies are deciding being public just isn't worth the hassle anymore. After the collapse of Enron Corp, WorldCom, Inc. and others, regulators and lawmakers raised financial reporting and corporate governance standards for publicly traded companies to increase accountability and transparency. In the latest and final phase of the reforms, known as Section 404, companies must assess internal financial controls and report findings to the Securities and Exchange Commission. Confronted with rising costs to comply and tougher penalties if they don't, a growing number of companies are dropping out of the public arena. Companies have also responded to new disclosure rules by shutting off investor communication. "More U.S. Companies Drop Out, Clam Up," Joseph A. Giannone and Brendan Intindola, *Reuters*, March 6, 2005.

Crisis outside of the classroom

Fat, drunk and stupid really isn't a good way for college students to go through life - or college. A new article in *Psychology Today* magazine asserts that colleges are perhaps the "worst possible environments in which to retain anything we've learned." Binge drinking, the wolfing down of junk food and sleep deprivation caused by cramming for tests all lead to poor academic performance and subpar memory retention - and all are found in abundance on august campuses across the nation, the article asserts. "All this news (from scientific studies) makes you wonder how anyone's ever managed to get an education," wrote author Steven Kotler, who relied on a number of academic reports to buttress his argument that colleges, while competent in the classrooms, aren't paying enough attention to students outside classrooms. "College environment 'worst possible' for study," Jay Fitzgerald, *Boston Herald*, April 20, 2005.

When it comes to the tax code, Milton Friedman makes sense: Just scrap it!

A relatively pure consumption tax would be the most efficient revenue system for the government, but is unlikely to occur because it would offer poli-

ticians little ability to dole out special favors, Nobel prize-winning economist Milton Friedman recently told President Bush's advisory tax panel. "I think most economists today would come close to agreeing that the major tax ought to be a flat-rate tax on consumption. Whether that tax is collected by a retail sales tax or whether it's collected by the way the income tax is by individual reporting would be open for debate," Friedman told the panel, as it held a public hearing in San Francisco. Such a tax would be ideal in part because it would encourage savings, Friedman said. Friedman, in his testimony, said a move to a pure flat tax would be nearly impossible given political realities. A seat on the tax-writing House Ways and Means Committee, for example, is a plum assignment because it gives a lawmaker ample opportunity to dole out favors to donors, he said.

"Friedman: Consumption tax best, but unlikely," William L. Watts, *CBS MarketWatch.com*, March 31, 2005.

Stopping at the red light costs you and it will cost you even more!

Backed up at a traffic light? Frustrated when you hit a red light only a block after driving through a green? Odds are those traffic signals may need some work. "Nationwide, our traffic signal systems score a D-minus. That's not a very good grade," said Shelley Row of the Institute of Transportation of Engineers. A survey released in April says the nation's traffic signal operations are largely inefficient, "We are experiencing more delay, longer travel time, more air pollution, and poorer fuel economy as a result," Row told *CBS News* correspondent John Hartge. And it doesn't have to be that way. "For a very low cost, about \$4 per vehicle per year, all of our agencies can make an A," Row said. It estimates that improving the system could cost roughly \$965 million a year.

"Seeing Red Over Traffic Lights," *CBS News*, April 20, 2005.



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