

STEVEN D. LEVITT and STEPHEN J. DUBNER (2005) *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*. New York: William Morrow. 242 pp., \$25.95.

*Freakonomics* is a phenomenon. It is hard to imagine a best seller constructed of the academic research of an applied microeconomist. But a best seller *Freakonomics* is (number 2 on the Amazon.com list at this May writing), and its misnomer of a title notwithstanding, economist Steven Levitt and writer Stephen Dubner have produced a smart, fun, witty and accessible introduction to Levitt's research (and that of his collaborators), a popular book that is, whether it is deemed economics or not, entirely faithful to the *ethos* of economics.

The book ranges widely over Levitt's eclectic oeuvre, focusing upon, in descending order of emphasis, cheating, crime and discrimination. Take crime first. Levitt and Dubner ask, what accounts for the extraordinary drop in U.S. violent crime during the 1990s? The answer: more cops, lower profits in the crack cocaine trade, and, most important of all, the bad guys were locked up or never born to begin with. The last two factors, more incapacitation and more abortion, are said to explain three-quarters of the 1990s decline in violent crime. (Neither the death penalty, nor more innovative policing techniques, nor tougher gun control, nor the aging of the population influenced the decline, conventional wisdom notwithstanding).

That legal abortion reduces crime, first presented in a paper co-authored with Stanford University Law professor John Donohue, is Levitt's most sensational claim. "Legalized abortion," say Levitt and Dubner, "led to less unwantedness; unwantedness leads to high crime; legalized abortion, therefore, led to less crime" (p.139). It is also a claim with something to offend nearly everyone. But Levitt's analysis is persuasive: there exists no relationship between abortion rates and violent crime until the late 1980s, when the post-*Roe v. Wade* cohort entered its criminal prime; states that legalized abortion earlier than *Roe v. Wade* showed earlier declines in crime than those that legalized upon *Roe*; and states with higher abortion rates showed greater declines in violent crime.

Why do drug dealers live with their mothers? Because, say Levitt and Dubner, they are poor apprentices who earn minimum wages until they, occupational hazards permitting, get a shot at the big-time money that is concentrated at the top of a drug gang's organizational chart. (The key data here are the ledgers of a gang chieftan who scrupulously recorded profit and loss from crack retailing). A street gang – or at least *this* street gang, led by a man educated enough but also reckless enough to leave a detailed road map of illegal transactions – is organized like a superstar market. The rewards are concentrated at the top of the firm's structure, with organizational advancement structured like a tournament.

Cheating, mostly non-criminal wrongdoing, is the heart of *Freakonomics*. We are treated to a delightfully ordinary rogues' gallery of Chicago schoolteachers, Sumo wrestlers, realtors, and bagel-consuming office workers.

Chicago schoolteachers had both the means (access to their students test forms) and the motive – their professional futures were affected by their students' test results – to cheat. Levitt devised an algorithm to catch those who cheated by emending their students' answers (and to exculpate those whose classes' test-score gains were legitimate). A dozen teachers were caught and dismissed.

Why would Sumo wrestlers tank? Answer: because tournament rules are structured so that, in some contests, the outcome is *not* zero-sum; the winners have far more to gain than the losers have to lose. Sumo wrestlers throw matches when the incentives are such that winning means little to one wrestler and a lot to his opponent. Even 400-pound national icons, it seems, are disinclined to leave 10,000,000 yen notes lying on the ground

The “bagel man” offers an intriguing glimpse into white-collar crime. It tells of a unique data set collected by a economist-turned-bagel-entrepreneur, who kept detailed records on the payment rates for bagels he supplied on the honor system. The bagel man would leave bagels and a box for payment, returning at the end of the day to collect the box. He found that most but not all people are honest, with payment rates between 85 and 95 percent. Intriguingly, cheating was more common in larger offices, among more senior executives, in bad weather and during stressful (read: family-oriented) holidays.

The real-estate agent’s motive to cheat is less obscure. A seller’s agent gets about one-quarter of the conventional six-percent commission – half goes to the buyer’s agent, and half of the seller’s agent’s half goes to his or her firm. The realtor’s gains to holding out for a \$10,000 higher price are thus \$150, which likely doesn’t justify the extra time and work to obtain the extra \$10,000 for her client. Levitt compared sales prices (and time on market) of homes owned by realtors with other comparable homes, and found that realtors leave their own homes on the market longer, and realize three percent higher prices.

*Freakonomics* approaches discrimination obliquely. One occasion is a discussion of the notorious test-score gap between white and black students. Levitt and Dubner report that, when income and parental education are controlled, for, black kindergarten kids test just as well as their white schoolmates. Income and education, not race, explain the test scores of five-year olds. But, as early as two years later, the notorious test-score gap emerges. Why? The authors’ answer: bad schools. Black schoolchildren remain, 50 years after *Brown v. Board of Education*, in relatively segregated schools – typically 60 percent black – and majority-black segregated schools tend to be bad schools. White children attending these bad schools perform no better than their black schoolmates, and black children attending the good schools perform no worse than their white schoolmates. Blacks underperform on tests, not because the tests are racially biased, but because black kids are disproportionately concentrated in bad schools.

The final chapter concerns the sources and effects of distinctively black names, girls’ names like Imani and Ebony, and boys’ names like DeShawn and Malik. Fully 40 percent of black girls born in a given year in California receive a name that not one of the roughly 100,000 white girls received that year (p.183-84). Levitt (and African-American co-author Roland Fryer) find that a child with a distinctively black name is more likely to come from a low-income, low-education, single-parent household. “DeShawn” thus signals more than race, say Levitt and Fryer, it also signals low socioeconomic status. This finding is meant to rebut audit studies, such as those that send resumés to employers that are identical in all respects save the first name. When the “Jake Williams” resumé gets more call-backs than the “DeShawn Williams” resumé, this is taken to demonstrate racism. But it may show, say Levitt and Fryer, not discrimination against blacks, but discrimination against the poorer and less educated.

Levitt’s gift is a knack for finding creative ways of slaying the endogeneity beast, that is, for locating exogenous factors that help ensure that one variable is not being affected by

something it is meant to explain. We know, for example, that crime rates positively correlate with greater police enforcement. But which way does the causality run? Do more cops cause more crime? Unlikely. Does more crime cause more police hiring? Perhaps, or it may be that a third factor simultaneously causes more cops and more crime. The empirical techniques for untangling cause from effect, are, Levitt and Dubner cheerfully admit, “more art than science”(161), and it is here where Levitt’s ingenuity lies.

In the case of crime and enforcement, Levitt uses the fact that nearly all (US) political campaigners promise more cops, so that police hiring near to elections can be seen as caused by politicking, not by crime rates or anything else. The police hiring that results from campaigns, as against ordinary hiring outside the electoral cycle, can be treated as exogenous, and its effects upon crime rates measured.

In its own discussion of the direction of causality, the book instances Levitt’s research on the influence of campaign spending upon US electoral outcomes. Does more spending win more votes, or do politicians more likely win votes attract more money? Or is it, rather, that more appealing candidates attract more money *and* more votes? Levitt’s innovation was to find a simple way to hold a candidate’s appeal constant, in order to measure the effect of money – almost none, as it happens – by comparing spending in different elections where the same two candidates square off.

My quarrels with the book are second order. First, style. Dubner writes with subtlety and verve, even if some readers will be put off by the occasionally self-congratulatory tone. Dubner’s *New York Times* profiles of Levitt, sections of which open each of the book’s chapters, are highly entertaining and informative. Rare among journalists writing about economics, Dubner gets it. But Dubner’s portrait of Levitt veers close to hagiography, a feature that becomes odder still when the saintly virtues of Levitt are enumerated in the single authorial voice adopted for *Freakonomics*.

As to substance, I wish the book had been longer. *Freakonomics* has an admirable concision – it can be read in one sitting. But sophisticated readers will find some tantalizing omissions as well as some incongruities, and there was room, at 240 pages, to address them.

One omission: is incapacitation, as practiced, worth it? Levitt is well known for his view that stiffer prison sentences reduce crime both by deterring would-be offenders and by incapacitating the already incarcerated. But it doesn’t follow, of course, that these benefits justify the costs of America’s imprisonment binge. Not all crimes imprisonment prevents are violent crimes, and most of the growth in the U.S. prison population – there was a fifteenfold increase in people sent to prison for drug offenses from 1980 to 2000 – consists of non-violent drug offenders. Levitt and Dubner daringly compare fetuses lost to abortion, with homicides thereby prevented; so why not measure the benefits of incapacitation against its costs?

One incongruity: does school quality matter? As noted, Levitt and Dubner advance the finding that low black test scores are due to inferior schools. But they also present a paper that finds school choice in Chicago public schools has no effect upon student outcomes. School choice raises graduation rates slightly, but this positive effect comes not from the schools but from better students; those who opt out of their assigned neighborhood school prove to be more academically motivated. Higher quality students, not better schools, explain the better outcome.

So, school quality does not affect student outcomes, except when it does. It is not that

these apparently divergent results cannot be reconciled. But a short explanation would have improved *Freakonomics*.

A theme of the book is that Levitt's research has no theme. The authors maintain that Levitt's topics are a deliberately eclectic, that he is more fox than hedgehog. This protests too much. Levitt's theme is that incentives matter. Teachers doctor students' answer sheets, office workers short the bagel man, taxpayers invent tax-deductible offspring, sumo wrestlers throw matches, and real estate agents chisel when it's other people's money. Levitt's choice of villains may owe something to his University of Chicago return address. Many of the shibboleths Levitt attacks are those of the Left, particularly the notion that greed and amorality are the exclusive province of commerce, and therefore do not afflict those whose station is thought to demonstrate loftier motives.

But not all incentives are pecuniary. This is why, as the authors report, the day-care center that began fining late-arriving parents \$3.00 found that late arrivals *increased*. Why? Pricing was seen to license late arrivals – it undermined non-pecuniary incentives, the desire not to take advantage of the teachers obligated to remain with stranded children, or, perhaps, the desire not be seen as the kind of person who takes advantage of teachers. This is not to claim that a \$300.00 fine wouldn't have done the job of deterrence, only that there are other incentives at work, too.

What struck me first about the book's many and mundane examples of cheating was how creative Levitt had been in devising strategies to detect cheating. What struck me second was how relatively uncommon cheating was. Only 4-5 percent of teachers doctored answer sheets; only 5-15 percent of bagel consumers shorted the bagel man (and nobody stole the money just sitting there); realtors cheated their clients to the tune of about 3 percent. Consider a different framing: 95 percent of teachers are honest; 90 percent of office workers abide the honor system even when they don't know the vendor; real estate agents offer clients performance that is 97 percent of what they would do for their own families. This is a fair amount of honesty, given the perverse incentives, and at least suggests the importance of moral sentiments.

Levitt is an expert on the effects of greater punishment, and I was also surprised to see little consideration of methods for deterring cheaters. Don't let teachers proctor exams in which they have a stake; change the Sumo wrestling rules so that tanking is not profitable; place a small camera (or a mirror) in the bagel-vending area; pay realtors not on total price but on their outperformance of prices for comparable properties, and so on.

These last thoughts are not so much objections; they are responses stimulated by the intellectually curious spirit of this unexpected, fine book.

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