

**WHEN TO  
ROB A   
BANK**

**... AND 131 MORE WARPED  
SUGGESTIONS AND  
WELL-INTENDED RANTS**

**STEVEN D. LEVITT &  
STEPHEN J. DUBNER**

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## What Do Blogs and Bottled Water Have in Common?



*Ten years ago, as we were about to publish a book called Freakonomics, we decided to start a companion website. It was called, unimaginatively, Freakonomics.com. The site happened to offer a blogging function.*

*Levitt, who is always a few years behind, had never heard of a blog, much less read or written one. Dubner explained the idea. Levitt remained unconvinced.*

*“Let’s just give it a try,” Dubner said. It was so early in our partnership that Levitt hadn’t yet come to understand that those six words were Dubner’s way of getting him to do all sorts of things he never intended to do.*

*So we gave the blog a try. Here’s the first post we wrote:*

## Unleashing Our Baby

Every parent thinks he has the most beautiful baby in the world. Evolution, it seems, has molded our brains so that if you stare at your own baby's face day after day after day, it starts to look beautiful. When other people's children have food clotted on their faces, it looks disgusting; with your own kid, it's somehow endearing.

Well, we've been staring at the *Freakonomics* manuscript so much that it now looks beautiful to us—warts, clotted food, and all. So we started to think that maybe some people would actually want to read it, and after reading it, might even want to express their opinions about it. Thus, the birth of this website. We hope it's a happy (or at least happily contentious) home for some time to come.

And it *has* been a happy home! Our blog writing tends to be more casual, more personal, more opinionated than how we write our books; we are just as likely to float a question as to give a concrete answer. We've written things we only thought halfway through and later regretted. We've written things we *did* think through but also later regretted. But mostly, having the blog gave us good reason to stay curious and open about the world.

## WHAT DO BLOGS AND BOTTLED WATER HAVE IN COMMON?

Unlike that first post, the vast majority of the blog entries were written by just one of us, not the pair, as in our book writing. We sometimes asked friends (and even enemies) to write for the blog; we've held "quorums" (asking a bunch of smart people to answer a tough question) and Q&As (with people like Daniel Kahneman and a high-end call girl named Allie). For several years, *The New York Times* hosted the blog, which gave it a veneer of legitimacy that wasn't quite warranted. But the *Times* eventually came to its senses and sent us off to do the thing we do, once more on our lonesome.

All these years, we routinely asked ourselves why we kept blogging. There was no obvious answer. It didn't pay; there wasn't any evidence the blog helped sell more copies of our books. In fact it may have cannibalized sales, since every day we were giving away our writing. But over time we realized why we kept at it: our readers liked reading the blog, and we loved our readers. Their curiosity and ingenuity and especially their playfulness have kept us at it, and in the pages to follow you will see ample evidence of their spirit.

Occasionally a reader would suggest that we turn our blog writing into a book. This struck us as a colossally dumb idea—until, one day not long ago, it didn't. What changed? Dubner was dropping off one of his kids at summer camp in Maine. In the middle of nowhere, they came upon a huge Poland Spring water-bottling plant. Having grown up in the middle of nowhere himself, Dubner had always thought it strange that so many people would pay good money for a

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bottle of water. And yet they do, to the tune of roughly \$100 billion a year.

Suddenly a book of blog posts didn't seem so dumb. So in the tradition of Poland Spring, Evian, and other hydrogeniuses, we've decided to bottle something that was freely available and charge you money for it.

To be fair, we did go to the trouble of reading through the whole blog and picking out the best material. (It was gratifying to find that among eight thousand mostly mediocre posts, we actually had some good ones.) We edited and updated the posts as necessary, arranging them into chapters that make book sense. Chapter One, for instance, "We Were Only Trying to Help," addresses the abolition of academic tenure, alternatives to democracy, and how to think like a terrorist. "Limberhand the Masturbator and the Perils of Wayne" is about names that are strange, fitting, or strangely fitting. "When You're a Jet" shows that once you start thinking like an economist, it's hard to turn it off—whether the subject is baby formula, animated films, or rancid chicken. Along the way, you will learn more than you ever wanted to know about our personal obsessions like golf, gambling, and the dreaded penny.

It has given us gargantuan pleasure over the years to put our warped thoughts into writing. We hope you enjoy peeking inside our heads to see what it's like to view the world through *Freakonomics*-colored glasses.

## CHAPTER 1

# We Were Only Trying to Help



*Some of the best ideas in history—nearly all of them, in fact—sounded crazy at first. That said, a lot of crazy-sounding ideas truly are crazy. But how do you find out? One of the best things about having a blog is that you've got a place to run your craziest ideas up the flagpole and see just how quickly they get shot down. Of all the posts we've ever written, the first one in this chapter generated the quickest, loudest, angriest response.*

### **If You Were a Terrorist, How Would You Attack?**

(SDL)

The TSA recently announced that most airplane carry-on restrictions will stay in place for now, although the ban has now been lifted on cigarette lighters. While it seems crazy to keep people from bringing toothpaste, deodorant, or water

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through security, it didn't seem so strange to ban lighters. I wonder whether the lighter manufacturers were lobbying for or against this rule change. On the one hand, having twenty-two thousand lighters confiscated per day would seem good for business; on the other hand, maybe fewer people will buy lighters if they can't travel with them.

Hearing about these rules got me thinking about what I would do to maximize terror if I were a terrorist with limited resources. I'd start by thinking about what really inspires fear. One thing that scares people is the thought that they could be a victim of an attack. With that in mind, I'd want to do something that everybody thinks might be directed at them, even if the individual probability of harm is very low.

Humans tend to overestimate small probabilities, so the fear generated by an act of terrorism is greatly disproportionate to the actual risk.

Also, I'd want to create the feeling that an army of terrorists exists, which I'd accomplish by pulling off multiple attacks at once, and then following them up with more shortly thereafter.

Third, unless terrorists always insist on suicide missions (which I can't imagine they would), it would be optimal to hatch a plan in which your terrorists aren't killed or caught in the act, if possible.

Fourth, I think it makes sense to try to stop commerce, since a commerce breakdown gives people more free time to think about how scared they are.

Fifth, if you really want to impose pain on the U.S., the act has to be something that prompts the government to pass a bundle of very costly laws that stay in place long after they have served their purpose (assuming they had a purpose in the first place).

My general view of the world is that simpler is better. My guess is that this thinking applies to terrorism as well. In that spirit, the best terrorist plan I have heard is one that my father thought up after the D.C. snipers created havoc in 2002. The basic idea is to arm twenty terrorists with rifles and cars, and arrange to have them begin shooting randomly at pre-set times all across the country. Big cities, little cities, suburbs, etc. Have them move around a lot. No one will know when and where the next attack will be. The chaos would be unbelievable, especially considering how few resources it would require of the terrorists. It would also be extremely hard to catch these guys. The damage wouldn't be as extreme as detonating a nuclear bomb in New York City, of course, but it sure would be a lot easier to obtain a handful of guns than a nuclear weapon.

I'm sure many readers have far better ideas. I would love to hear them. Consider that posting them on this blog could be a form of public service: I presume that a lot more folks who oppose and fight terror read this blog than actual terrorists. So by getting these ideas out in the open, it gives terror fighters a chance to consider and plan for these scenarios before they occur.

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*This post was published on August 8, 2007, the day the Freakonomics blog took up residence on The New York Times's website. That same day, in an interview with The New York Observer, Dubner was asked to explain why Freakonomics was the first outside blog that the Times had decided to publish. His answer reflected the fact that he used to work at the newspaper and knew well its standards and mores: "They know I'm not going to issue some sort of fatwa on the blog." As it turns out, Levitt's post soliciting ideas for a terrorist strike was considered exactly that. It drew so much heated response that the Times shut down the comments section after a few hundred comments. Here is a typical one: "You have got to be kidding me. Ideas for terrorists? Think you are being cute? Clever? You are an idiot." This led Levitt to try again, the following day:*

### **Terrorism, Part II**

(SDL)

On the very first day that our blog was hosted by *The New York Times*, I wrote a post that generated the most hate mail I've gotten since the abortion-crime story first broke almost a decade ago. The people e-mailing me can't decide whether I am a moron, a traitor, or both. Let me try again.

A lot of the angry responses make me wonder what everyday Americans think terrorists do all day. My guess is that they brainstorm ideas for terrorist plots. And you have to believe that terrorists are total idiots if it never occurred

to them after the Washington, D.C., sniper shootings that maybe a sniper plot wasn't a bad idea.

The point is this: there is a virtually infinite array of incredibly simple strategies available to terrorists. The fact that it has been six years since the last major terrorist attack in the United States suggests either that the terrorists are incompetent, or that perhaps their goal isn't really to generate terror. (A separate factor is the prevention efforts by law enforcement and the government; I'll address that later.)

Many of the angry e-mails I received demanded that I write a post explaining how we stop terrorists. But the obvious answer is a disappointing one: if terrorists want to engage in low-grade, low-tech terror, we are powerless to stop it.

That is the situation in Iraq right now, and, to a lesser degree, in Israel. That was also more or less the situation with the IRA a while back.

So what can we do? Like the British and Israelis have done, if faced with this situation, Americans would figure out how to live with it. The actual cost of this low-grade terrorism in terms of human lives is relatively small, compared to other causes of death like motor-vehicle crashes, heart attacks, homicide, and suicide. It is the fear that imposes the real cost.

But just as people in countries with runaway inflation learn relatively quickly to live with it, the same happens with terrorism. The actual risk of dying from an attack while riding a bus in Israel is low—and so, as Gary Becker and Yona

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Rubinstein have shown, people who have a lot of experience riding Israeli buses don't respond much to the threat of bombings. Similarly, there is little wage premium for being a bus driver in Israel.

Beyond this, I think there are a few more prospective things we can do. If the threat is from abroad, then we can do a good job screening risky people from entering the country. That, too, is obvious. Perhaps less obvious is that we can do a good job following potential risks after they enter the country. If someone enters on a student visa and isn't enrolled in school, for instance, he is worth keeping under close surveillance.

Another option is one the British have used: putting cameras everywhere. This is very anti-American, so it probably would never fly here. I also am not sure it is a good investment. But the recent terrorist attacks in the U.K. suggest that these cameras are at least useful after the fact in identifying the perpetrators.

The work of my University of Chicago colleague Robert Pape suggests that the strongest predictor of terrorist acts is the occupation of a group's territory. From that perspective, having American troops in Iraq is probably not helping to reduce terrorism—although it may be serving other purposes.

Ultimately, though, it strikes me that there are two possible interpretations of our current situation vis-à-vis terrorism.

One view is this: the main reason we aren't currently

being decimated by terrorists is that the government's anti-terror efforts have been successful.

The alternative interpretation is that the terror risk just isn't that high and we are greatly overspending on fighting it, or at least appearing to fight it. For most government officials, there is much more pressure to look like you are trying to stop terrorism than there is to actually stop it. The head of the TSA can't be blamed if a plane gets shot down by a shoulder-launched missile, but he is in serious trouble if a tube of explosive toothpaste takes down a plane. Consequently, we put much more effort into the toothpaste even though it is probably a much less important threat.

Likewise, an individual at the CIA isn't in trouble if a terrorist attack happens; he or she is only in trouble if there is no written report that details the possibility of such an attack, which someone else should have followed up on, but never did because there are so many such reports written.

My guess is that the second scenario—the terrorism threat just isn't that great—is the more likely one. Which, if you think about it, is an optimistic view of the world. But that probably still makes me a moron, a traitor, or both.

### **How About a "War on Taxes"?**

(SJD)

David Cay Johnston, who does an incredible job covering U.S. tax policy and other business issues for the *New York Times*, reports that the IRS is outsourcing the collection of

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back taxes to third parties, a.k.a. collection agencies. “The private debt collection program is expected to bring in \$1.4 billion over 10 years,” he writes, “with the collection agencies keeping about \$330 million of that, or 22 to 24 cents on the dollar.”

Maybe that seems like too big a cut to surrender. And maybe people will be worried about the collection agencies having access to their financial records. But what’s most striking to me is that the IRS knows who owes the money and knows where to find it, but because it is understaffed cannot afford to collect it. So it has to hire someone else to do it, at a stiff price.

The IRS admits that external collection is far more expensive than internal collection. Former commissioner Charles O. Rossotti once told Congress that if the IRS hired more agents, it “could collect more than \$9 billion each year and spend only \$296 million—or about three cents on the dollar—to do so,” Johnston writes.

Even if Rossotti was exaggerating by a factor of five, the government would still be getting a better deal by hiring more agents than by contracting to a third party that takes a 22 percent cut. But Congress, which oversees the IRS budget, is famously reluctant to give the agency more resources to do its job. We touched on this subject in a *Times* column of our own:

A main task of any IRS commissioner . . . is to beg Congress and the White House for resources. For all

the obvious appeal of having the IRS collect every dollar owed to the government, it is just as obviously unappealing for most politicians to advocate a more vigorous IRS. Michael Dukakis tried this during his 1988 presidential campaign, and—well, it didn't work.

Left to enforce a tax code no one likes upon a public that knows it can practically cheat at will, the IRS does its best to fiddle around the edges.

Why does Congress act as it does? Maybe our congressmen are a bunch of history buffs so imbued with the spirit of our republic that they remember the Boston Tea Party too well and are scared of how the populace might revolt if they ramp up tax enforcement. But keep in mind that we are talking about tax enforcement here, which is the IRS's job, and not tax law, which is Congress's responsibility. In other words, Congress is happy to set the tax rates that it does; but it doesn't want to be seen as giving too much comfort to the bad cops who have to go out and collect those tax dollars.

So maybe they need to relabel their effort to get all the tax money that is owed. Since Congress approves so much money for the War on Terror and the War on Drugs, maybe it's time for them to launch a War on Taxes—well, really, a War on Tax Cheats. What if they could demonize the tax cheats so thoroughly, emphasizing that the “tax gap” (the difference between taxes owed and money collected) is about the size of the federal deficit: Would that make it more politically palatable to give the IRS the resources to collect

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the money that is owed? Maybe they could put pictures of tax cheats on milk cartons, on flyers at the post office, even on *America's Most Wanted*. Would that do the trick? Would a properly managed War on Tax Cheats fix the problem?

For now, we'll have to settle for the IRS turning over the job to collection agencies who will collect some money but not nearly as much as is owed. Which means a lot of money—a lot of tax money, that is, collected from the people who don't cheat—continuing to go down the drain.

### **If Public Libraries Didn't Exist, Could You Start One Today?**

(SJD)

Raise your hand if you hate libraries.

Yeah, I didn't think so. Who could possibly hate libraries?

Here's one suggestion: book publishers. I am probably wrong on this, but if you care about books, hear me out.

I had lunch recently with a few publishing folks. One of them had just returned from a national librarians' conference, where it was her job to sell her line of books to as many librarians as possible. She said that there were twenty thousand librarians in attendance; she also said that if she got one big library system, like Chicago's or New York's, to buy a book, that could mean a sale of as many as a few hundred copies, since many library branches carry several copies of each book.

That sounds great, doesn't it?

Well . . . maybe not. Among writers, there is a common lament. Someone comes up to you at a book signing and says, "Oh, I loved your book so much, I got it from the library and then told all my friends to go to the library, too!" And the writer thinks, "Gee, thanks, but why didn't you buy it?"

The library bought its copy, of course. But let's say fifty people will read that copy over the life of the book. If the library copy hadn't existed, surely not all fifty of those people would have bought the book. But imagine that even five people would have. That's four additional book sales lost by the writer and the publisher.

There's another way to look at it, of course. Beyond the copies that libraries buy, you could argue that, in the long run, libraries augment overall book sales along at least a few channels:

1. Libraries help train young people to be readers; when those readers are older, they buy books.
2. Libraries expose readers to works by authors they wouldn't have otherwise read; readers may then buy other works by the same author, or even the same book to have in their collection.
3. Libraries help foster a general culture of reading; without it, there would be less discussion, criticism, and coverage of books in general, which would result in fewer book sales.

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But here's the point I'm getting to: if there were no such thing today as the public library and someone like Bill Gates proposed to establish them in cities and towns across the U.S. (much like Andrew Carnegie once did), what would happen?

I am guessing there would be a huge pushback from book publishers. Given the current state of debate about intellectual property, can you imagine modern publishers being willing to sell one copy of a book and then have the owner let an unlimited number of strangers borrow it?

I don't think so. Perhaps they'd come up with a licensing agreement: the book costs twenty dollars to own, with an additional two dollars per year for every year beyond year one it's in circulation. I'm sure there would be a lot of other potential arrangements. And I am just as sure that, like a lot of systems that evolve over time, the library system is one that, if it were being built from scratch today, wouldn't look anything like it actually does.

### **Let's Just Get Rid of Tenure (Including Mine)**

(SDL)

If there was ever a time when it made sense for economics professors to be given tenure, that time has surely passed. The same is likely true of other university disciplines, and probably even more true for high-school and elementary-school teachers.

What does tenure do? It distorts people's effort so that they face strong incentives early in their career (and presumably work very hard early on as a consequence) and very weak incentives forever after (and presumably work much less hard on average as a consequence).

One could imagine some models in which this incentive structure makes sense. For instance, if one needs to learn a lot of information to become competent, but once one has the knowledge it does not fade, and effort is not very important. That model may be a good description of learning to ride a bike, but it is a terrible model of academics.

From a social standpoint, it seems like a bad idea to make incentives so weak after tenure. Schools get stuck with employees who are doing nothing (at least not doing what they are presumably being paid to do). It also is probably a bad idea to give such strong incentives pre-tenure—even without tenure, young faculty have lots of reasons to work hard to build a good career.

The idea that tenure protects scholars who are doing politically unpopular work strikes me as ludicrous. While I can imagine a situation where this issue might arise, I am hard-pressed to think of actual cases where it has been relevant. Tenure does an outstanding job of protecting scholars who do no work or terrible work, but is there anything in economics which is high quality but so controversial that it would lead to a scholar being fired? Anyway, that is what markets are for. If one institution fires an academic primarily because they don't like his or her politics or approach,

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there will be other schools happy to make the hire. There are, for instance, cases in recent years in economics where scholars have made up data, embezzled funds, etc., but still have found good jobs afterward.

One hidden benefit of tenure is that it works as a commitment device to get departments to fire mediocre people. The cost of not firing at a tenure review is higher with tenure in place than it is without it. If it is painful to fire people, without tenure the path of least resistance may be to always say you will fire the person the next year, but never do it.

Imagine a setting where you care about performance (e.g., a professional football team, or as a currency trader). You wouldn't think of granting tenure. So why do it in academics?

The best-case scenario would be if all schools could coordinate on dumping tenure simultaneously. Maybe departments would give the deadwood a year or two to prove they deserved a slot before firing them. Some non-producers would leave or be fired. The rest of the tenure-age economists would start working harder. My guess is that salaries and job mobility would not change that much.

Absent all schools moving together to get rid of tenure, what if one school chose to unilaterally revoke tenure? It seems to me that it might work out just fine for that school. It would have to pay the faculty a little extra to stay in a department without an insurance policy in the form of tenure. Importantly, though, the value of tenure is inversely related to how good you are. If you are way over the bar, you

face almost no risk if tenure is abolished. So the really good people would require very small salary increases to compensate for no tenure, whereas the really bad, unproductive economists would need a much bigger subsidy to remain in a department with tenure gone. This works out fantastically well for the university because all the bad people end up leaving, the good people stay, and other good people from different institutions want to come to take advantage of the salary increase at the tenure-less school. If the U of C told me that they were going to revoke my tenure, but add \$15,000 to my salary, I would be happy to take that trade. I'm sure many others would as well. By dumping one unproductive, previously tenured faculty member, the university could compensate ten others with the savings.

### **Why Don't Flight Attendants Get Tipped?**

(SJD)

Think of all the service people who habitually get tips: hotel bellmen, taxi drivers, waiters and waitresses, the guys who handle curbside baggage at airports, sometimes even the baristas at Starbucks. But not flight attendants. Why not?

Maybe it's because they're thought to earn a pretty good living and don't need the tips. Maybe it's because they're simply thought to be salaried employees of a sort that for whatever reason shouldn't accept tips. Maybe for some reason they are actually prohibited from accepting tips. Maybe

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it harks back to the day when most flight attendants were women and most passengers were men—and given the somewhat mystical (or perhaps mythical) reputation of the amorous businessman and the foxy stewardess, the exchange of money at flight's end may have raised some questions about just what the stewardess had done to deserve the tip.

Still, it's very odd to me that so many service people who perform similar functions get tipped and that flight attendants don't. Especially when they often work so hard for so many people, running back and forth with drinks, pillows, headphones, etc. Yes, I know that most people are pretty unhappy with the airline experience these days, and I know that the occasional flight attendant is crabby beyond belief, but in my experience most of them do a really great job, often under trying circumstances.

It's not that I'm advocating for yet another kind of worker to get tips. But having flown a lot lately, and seeing how hard flight attendants work, it struck me as odd that they don't get tipped. At least I've never seen anyone tip a flight attendant. And when I asked flight attendants on my last five flights if they'd ever gotten a tip, each of them said no, never. Their reactions to my question ranged from quizzical to hopeful.

I think on my flight home today, I'll simply slip the tip instead of asking the question, and see what happens.

*Update: I tried, and failed. "A flight attendant is not a waitress," I was told—so forcefully that I felt terrible for even trying to put money in the woman's hands.*

## **Want to Fix New York Air Congestion? Shut Down LaGuardia**

(SJD)

The Department of Transportation just canceled its plan to auction off landing and takeoff slots at New York City's three airports. The idea was to use market forces to ease congestion, but in the face of industry backlash (and legal threats), transportation secretary Ray LaHood called off the auction.

"We're still serious about tackling aviation congestion in the New York region," LaHood says. "I'll be talking with airline, airport, and consumer stakeholders, as well as elected officials, over the summer about the best ways to move forward."

The three major airports serving New York—J.F.K., Newark-Liberty, and LaGuardia—are famously high-ranked when it comes to congestion and delays. And since so many flights elsewhere connect through New York, their delays affect air traffic everywhere.

During a recent ground delay at LaGuardia, I got to talking with an off-duty pilot for a major airline who was extraordinarily knowledgeable about every single airline question I could think to ask him. When I asked for his take on New York air congestion, he said the solution was easy: shut down LaGuardia.

The problem, as he explained it, is that the airspace for each of the three airports extends cylindrically into the sky

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above its ground position. Because of their relative proximity, the three airspace cylinders affect one another significantly, which creates congestion not just because of volume but because pilots have to thread the needle and fly unnecessarily intricate approach routes in order to comply.

If the LaGuardia cylinder were eliminated, he said, Newark and J.F.K. would both operate much more freely—and since LaGuardia handles far less traffic than the other two airports, it is the obvious choice for shuttering.

But there's a problem: LaGuardia is the favored airport of the people with the most political power in New York, since it is a very short ride from Manhattan. So it's unlikely to happen, at least anytime soon. But if it did, my new pilot friend insisted, New York air travel would move from nightmare to dream.

I have to admit that LaGuardia is my favorite airport, since I live in Manhattan and can usually get there in about fifteen minutes. On every other dimension, meanwhile, it is less pleasant and comfortable than either Newark or J.F.K.

That said, if eliminating LaGuardia had the cascading effect of streamlining all New York air traffic, I would personally help start knocking it down. Let's say that I, and every other New York traveler, spend an average of thirty wasted minutes on every inbound and outbound flight in any of the three airports. (That's probably being generous.) That's a one-hour delay for each round trip. If I had to go to Newark or J.F.K. for every flight, I'd spend a little bit less than an ex-

tra hour on a round-trip ground commute to the airport—so with no delays, I'd at least be breaking even. Everyone who lived closer to either airport would obviously do even better. And then we'd get to start adding up all the time and productivity regained around the country by eliminating the inevitable New York airport delays.

### **Why Restoring the Military Draft Is a Terrible Idea**

(SDL)

A long report in *Time* magazine carries the headline “Restoring the Draft: No Panacea.”

Milton Friedman must be turning over his grave at the mere suggestion of a military draft. If the problem is that not enough young people are volunteering to fight in Iraq, there are two reasonable solutions: 1) take the troops out of Iraq; or 2) compensate soldiers well enough that they are willing to enlist.

The idea that a draft presents a reasonable solution is completely backward. First, it puts the “wrong” people in the military—people who are either uninterested in a military life, not well equipped for one, or who put a very high value on doing something else. From an economic perspective, those are all decent reasons for not wanting to be in the military. (I understand that there are other perspectives—

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for example, a sense of debt or duty to one's country—but if a person feels that way, it will be factored into his or her interest in military life.)

One thing markets are good at is allocating people to tasks. They accomplish this through wages. As such, we should pay U.S. soldiers a fair wage to compensate them for the risks they take! A draft is essentially a large, very concentrated tax on those who are drafted. Economic theory tells us that is an extremely inefficient way to accomplish our goal.

Critics might argue that sending economically disadvantaged kids to die in Iraq is inherently unfair. While I wouldn't disagree that it's unfair that some people are born rich and others poor, given that income disparity exists in this country, you'd have to possess a low opinion of the decision-making ability of military enlistees to say that a draft makes more sense than a volunteer army. Given the options they face, the men and women joining the military are choosing that option over the others available to them. A draft may make sense as an attempt to reduce inequality; but in a world filled with inequality, letting people choose their own paths is better than dictating one for them. As a perfect example of this, the Army is currently offering \$20,000 "quick ship" bonuses to those who are willing to ship out to basic training within thirty days of signing up. (This bonus likely has something to do with the fact that the Army just hit its monthly recruiting goal for the first time in a while.)

It would be even better if the government was required to pay fair wages to soldiers during wartime—i.e., if combat pay was market-determined and soldiers could opt to leave whenever they wanted, like most jobs. If that were the case, the cost to the government would skyrocket and more accurately reflect the true costs of war, leading to a truer assessment of whether the benefits of military action outweigh the costs.

Critics also argue that if there were more affluent Caucasians in the military, we wouldn't be in Iraq. That is probably true, but it doesn't automatically mean that a draft is a good idea. A draft would make fighting wars much less efficient, which should mean fewer wars. But it may be the case that, if you can fight a war efficiently, it is worth fighting—even if it's not worth fighting inefficiently. To be clear, I am not saying this particular war is necessarily worth fighting—just that, in theory, this could be true.

As a side point, the current system of relying on reservists doesn't seem like a good one either. Essentially, it involves the government overpaying reservists when they aren't needed, and underpaying them when they are needed. This setup shifts all the risk from the government to the reservists. From an economic perspective, such a result doesn't make any sense, because individuals shouldn't/don't like risk. Ideally, you would want a system in which the payment to reservists is extremely low in peacetime, and high enough in wartime that they would be indifferent to being called up or not.

## **A Freakonomics Proposal to Help the British National Health Service**

(SDL)

In the first chapter of our book *Think Like a Freak*, we recount an ill-fated interaction that Dubner and I had with David Cameron shortly before he was elected prime minister of the U.K. (In a nutshell, we joked with Cameron about applying the same principles he espoused for health care to automobiles; it turns out you don't joke with prime ministers!)

That story has riled up some people, including an economics blogger named Noah Smith, who rails on us and defends the NHS.

I should start by saying I have nothing in particular against the NHS, and I also would be the last one to ever defend the U.S. system. Anyone who has ever heard me talk about Obamacare knows I am no fan of it, and I never have been.

But it doesn't take a whole lot of smarts or a whole lot of blind faith in markets to recognize that when you don't charge people for things (including health care), they will consume too much of it. I guarantee you that if Americans had to pay out of their own pockets the crazy prices that hospitals charge for services, a much smaller share of U.S. GDP would go to health care. And, of course, the same would be true in the U.K.

Smith ends his critique by writing:

But I don't think Levitt has a model. What he has is a simple message ("all markets are the same"), and a strong prior belief in that message.

Smith could not have known, based on what's in *Think Like a Freak*, that we actually do have a model for the NHS. And, indeed, I proposed the model to Cameron's team after he left the meeting.

If nothing else, the model is admirably simple.

On January 1 of each year, the British government would mail a check for £1,000 to every British resident. They can do whatever they want with that money, but if they are being prudent, they might want to set it aside to cover out-of-pocket health care costs. In my system, individuals are now required to pay out of pocket for 100 percent of their health care costs up to £2,000, and 50 percent of the costs between £2,000 and £8,000. The government pays for all expenses over £8,000 in a year.

From a citizen's perspective, the best-case scenario is that they use no health care, so they end up £1,000 to the positive. Well over half of U.K. residents will end up spending less than £1,000 on health care in a given year. The worst case for an individual is that he/she ends up consuming more than £8,000 of health care, so that he/she ends up £4,000 in the red (he/she spends £5,000 on health care, but this is offset by the £1,000 gift at the beginning of the year).

If it turns out that consumers are sensitive to prices (i.e., that the most basic principle of economics holds, and

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demand curves slope downward), total spending on health care will decrease. In simulations we've run at the Greatest Good, we estimate that total health care costs might decline by roughly 15 percent. That is a decrease in spending of nearly twenty billion pounds. This decrease comes because a) competition will likely lead to increased efficiency; and b) consumers will cut out the low-value health care services they are currently using only because the services come for free.

Everyone remains protected against catastrophic illness.

Like any government program, there are winners and losers. The majority of Brits will be better off in the scenario I laid out, but those who need to spend a lot on health care in a particular year will be worse off. That is because the system I propose provides only partial insurance—which retains incentives for consumers to make prudent choices. The health care system would then mimic the rest of life. When my TV breaks, I have to buy a new one. I'm worse off than the guy whose TV did not break. When my roof needs to be replaced, it's expensive, and I'm worse off than if the roof didn't need replacement. There's nothing immoral about this; it is just the way the world usually works.

There are, no doubt, many improvements that could be made to this simple proposal. For instance, maybe the cash payment to the elderly at the beginning of the year should be larger than that to those who are younger. Maybe the cash payment is bigger to those who have chronic illnesses, etc.

I have no idea whether this sort of plan could be politically viable, but I have done some informal polling of the British electorate. Every time I take a cab in London, I ask my driver whether he would be in favor of my proposal. Probably the cabbies are just being polite, but roughly 75 percent of them say they would prefer my plan to the current system.

Perhaps, then, it is time for another audience with the prime minister . . .

### **An Alternative to Democracy?**

(SDL)

With the U.S. presidential election nearly here, everyone seems to have politics on their mind. Unlike most people, economists tend to have an indifference toward voting. The way economists see it, the chances of an individual's vote influencing an election outcome is vanishingly small, so unless it is fun to vote, it doesn't make much sense to do so. On top of that, there are a number of theoretical results, most famously Arrow's Impossibility Theorem, which highlight how difficult it is to design political systems/voting mechanisms that reliably aggregate the preferences of the electorate.

Mostly, these theoretical explorations into the virtues and vices of democracy leave me yawning.

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Last spring, however, my colleague Glen Weyl mentioned an idea along these lines that was so simple and elegant that I was amazed no one had ever thought of it before. In Glen's voting mechanism, every voter can vote as many times as he or she likes. The catch, however, is that you have to pay each time you vote, and the amount you have to pay is a function of the square of the number of votes you cast. As a consequence, each extra vote you cast costs more than the previous vote. Just for the sake of argument, let's say the first vote costs you \$1. Then to vote a second time would cost \$4. The third vote would be \$9, the fourth \$16, and so on. One hundred votes would cost you \$10,000. So eventually, no matter how much you like a candidate, you choose to vote a finite number of times.

What is so special about this voting scheme? People end up voting in proportion to how much they care about the election outcome. The system captures not just which candidate you prefer, but how strong your preferences are. Given Glen's assumptions, this turns out to be Pareto efficient—i.e., no person in society can be made better off without making someone else worse off.

The first criticism you'll likely make against this sort of scheme is that it favors the rich. At one level that is true relative to our current system. It might not be a popular argument, but one thing an economist might say is that the rich consume more of everything—why shouldn't they consume more political influence? In our existing system of campaign contributions, there can be little doubt that the rich already

have far more influence than the poor. So restricting campaign spending, in conjunction with this voting scheme, might be more democratic than our current system.

Another possible criticism of Glen's idea is that it leads to very strong incentives for cheating through vote buying. It is much cheaper to buy the first votes of a lot of uninterested citizens than it is to pay the price for my one-hundredth vote. Once we put dollar values on votes, it is more likely that people will view votes through the lens of a financial transaction and be willing to buy and sell them.

Given we've been doing "one person, one vote" for so long, I think it is highly unlikely that we will ever see Glen's idea put into practice in major political elections. Two other economists, Jacob Goeree and Jingjing Zhang, have been exploring a similar idea to Glen's and testing it in a laboratory environment. Not only does it work well, but when given a choice between standard voting and this bid system, the participants usually choose the bid system.

This voting scheme can work in any situation where there are multiple people trying to choose between two alternatives—e.g., a group of people trying to decide which movie or restaurant to go to, housemates trying to decide which of two TVs to buy, etc. In settings like those, the pool of money that is collected from people voting would be divided equally and then redistributed to the participants.

My hope is that a few of you might be inspired to give this sort of voting scheme a try. If you do, I definitely want to hear about how it works out!

## **Would Paying Politicians More Attract Better Politicians?**

(SJD)

Whenever you look at a political system and find it wanting, one tempting thought is this: maybe we have subpar politicians because the job simply isn't attracting the right people. And, therefore, if we were to significantly raise politicians' salaries, we would attract a better class of politician.

This is an unpopular argument for various reasons, one of them being that it would be the politicians themselves who have to lobby for higher salaries, and that isn't politically feasible (especially in a poor economy). Can you imagine the headlines?

But the idea remains attractive, doesn't it? The idea is that by raising the salaries of elected and other government officials, you would a) signal the true importance of the job; b) attract a kind of competent person who might otherwise enter a more remunerative field; c) allow politicians to focus more on the task at hand rather than worry about their income; and d) make politicians less susceptible to the influence of moneyed interests.

Some countries already pay their government officials a lot of money—Singapore, for instance. From Wikipedia:

Ministers in Singapore are the highest paid politicians in the world, receiving a 60% salary raise in 2007 and as a result Prime Minister Lee Hsien Loong's pay jumped

to S\$3.1 million, five times the US\$400,000 earned by President Barack Obama. Although there was a brief public outcry regarding the high salary in comparison to the size of the country governed, the government's firm stance was that this raise was required to ensure the continued efficiency and corruption-free status of Singapore's "world-class" government.

Although Singapore recently cut its politicians' pay substantially, the salaries remain relatively very high.

But is there any evidence that paying politicians more actually improves quality? A research paper by Claudio Ferraz and Frederico Finan argues that it did for municipal governments in Brazil:

Our main findings show that [paying a] higher wage increases political competition and improves the quality of legislators, as measured by education, type of previous profession, and political experience in office. In addition to this positive selection, we find that wages also affect politicians' performance, which is consistent with a behavioral response to a higher value of holding office.

Another, more recent paper by Finan, Ernesto Dal Bó, and Martin Rossi finds that the quality of civil servants also improves when they are paid more, this time in Mexican cities:

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We find that higher wages attract more able applicants as measured by their IQ, personality, and proclivity toward public sector work—i.e., we find no evidence of adverse selection effects on motivation; higher wage offers also increased acceptance rates, implying a labor supply elasticity of around 2 and some degree of monopsony power. Distance and worse municipal characteristics strongly decrease acceptance rates but higher wages help bridge the recruitment gap in worse municipalities.

I am not willing to argue that paying U.S. government officials more would necessarily improve our political system. But, just as it seems a bad idea to pay a schoolteacher less than a commensurately talented person can make in other fields, it is probably a bad idea to expect that enough good politicians and civil servants will fill those jobs even though they can make a lot more money doing something else.

There's an even more radical idea I've been thinking about for a while: What if we incentivized politicians with big cash payouts if the work they do in office actually turns out to be good for society?

One big problem with politics is that politicians' incentives are generally not aligned well with the incentives of the electorate. Voters want politicians to help solve hard problems that have long-term time frames: transportation,

health care, education, economic development, geopolitical affairs, and so on. The politicians, meanwhile, have strong incentives to act in their own interests (getting elected, raising money, consolidating power, etc.), most of which have short-term payouts. So as much as we may dislike how many politicians act, they're simply responding to the incentives the system puts before them.

But what if, instead of paying politicians a flat rate for their work, thereby encouraging them to exploit their office for personal gains that may go against the collective good, we incentivized them to work hard for the collective good?

How would I go about doing this? By offering politicians the equivalent of stock options in the legislation they produce. If an elected or appointed official works for years on a project that yields good outcomes in public health or education or transportation, let's write them a big check five or ten years down the road, once those outcomes have been verified. What would you rather do: pay a U.S. secretary of education the standard \$200,000 salary whether or not he does anything worthwhile—or write him a check for \$5 million in ten years if his efforts actually manage to raise U.S. test scores by 10 percent?

I have run this idea by a number of elected politicians. They do not think it is entirely crazy, or at least they are polite enough to pretend they don't. I recently had the chance to talk through the idea with Senator John McCain. He listened carefully—nodding, smiling, the whole bit. I couldn't

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believe how engaged he was. This only encouraged me to go on and on, in great detail. Finally, he reached to shake my hand. “That’s a neat idea, Steve,” he said, “and good luck to hell with that!”

He turned and walked away, still smiling. I have never felt so good about being so fully rejected. I guess that’s what it takes to be a great politician.