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BOOK REVIEW
„The Darwin Economy: Liberty, Competition, and the Common Good”, by Robert H. Frank, published at Princeton University, 2011.

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MISQUOTING DARWIN

Could *„natural selection”* be viewed as an economic approach within a state regulated market, as opposed to Adam Smith’s unbridled competition? Is a free market beneficial for the individual, but counter-productive for the group? How could we make the economic pie larger, eliminate government debt, provide better public services and fine tune the economic transactions so as to optimize economic performance?

Robert Frank argues, in his latest book *„The Darwin Economy”*, that Charles Darwin, not Adam Smith, will one day be considered the greatest economist that ever lived. The author considers that Darwin has indirectly laid a better understanding of the economic process of the market, through his theory of natural selection, as opposed to Smith’s *„invisible hand”*.

An incorrect understanding of evolution

Darwinism, as a set of concepts related to evolution, has been widely used in different fields of study, from cognitive psychology to the analysis of law, so Frank’s approach is not altogether new to the academia. Not even his behavioral economics standpoint is not fresh, this area of study being already covered for some decades through the work of scientists like Ward Edwards, Amos Tversky and Daniel Kahneman, just to name a few. The novel characteristic of Frank’s book is his firm belief that individual incentives often lead to wasteful arms races.

„Darwin understood, for example, that peahens favored males with conspicuous tail displays, perhaps because such displays were a reliable signal of a robust immune system that could be passed along to offspring. But Darwin also recognized that conspicuous tail displays made peacocks more vulnerable to predators and were hence wasteful from the perspective of the species. If all displays were smaller by half, the same males would pair with the same females as before, but each male would be less vulnerable. Yet no individual peacock would have reason to regret having a bright tail display, because without one his chances of landing a mate would be much diminished. Similarly, job applicants are no more likely to get the positions they seek if all spend $2,000 on interview suits than if all had spent only $300. But that's no reason to regret having bought the more expensive suit."

This excerpt, from *„The Darwin economy"* (preface, pg. XII) presents clearly the root of Robert Frank's misunderstandings that led him to plead for a restrained competition and a state regulated market.

Farewell, rational human being!

Behavioral economics integrates insights from psychology within the neo-classical economic view of the *„homo oeconomicus"* – the concept that humans are rational, self-interested actors who have the ability to make judgements toward their subjectively defined ends. Behavioral analysts, such as the author of this book, try to understand the economic decisions of individuals and institutions performing economic functions, including consumers, borrowers and investors, their effects on market prices, returns and the resource allocation. Following in the footsteps of other behavioral economists, Robert Frank denies the rationality of the human beings, dysfunction that generates the economic issues of collective action.

Returning to the excerpt, we can now understand the fallacy of Frank's argument. The author believes that artificially lowering the total value of money spent in a particular action (e.g. in a job interview), the collective could be better off. Although this might seem true (each individual job applicant could spend only $300 on a suit, as opposed to $2.000), the fact of the matter is that competition, just like the natural selection, doesn't operate on a group level, but on an individual level. Peacocks display their magnificent tails not to benefit the whole species, but for the benefit of each individual male.

Similar to the peacocks, each job applicant tries its best, through whatever resources one has, to knock off competition and win the job. The job applicants don't but their suits for the benefit of the whole group, but for their individual, subjective self-interest. Consequently, through his comparison (peacocks – job applicants), Robert Frank's example cannot be understood as a denial of human rationality, but as an additional proof of the self-interested behavior in humans.

The double standard of irrationality and the inefficiency of governmental taxes

Although humans are rational, let's assume, for argument's sake, that individuals don't act rationally. What is there to do about it and who can fix it? In Robert Frank's own words: *„Government can eliminate many of the most important losses caused by collective action* *problems through changes in tax policy"*. Unfortunately, if we follow the human irrationality reasoning, we shortly find out that, alas, the Government is made out of people who themselves are irrational. So why should we pass the mechanisms of economic activity to a centralized institution that is as irrational as any other individual?

Moreover, how could the collective group benefit from the change in the tax policy if each and every individual in the group is forced to adapt to the newly created incentives? In chapter 11, the author argues that *„a tax on any activity not only generates revenue, it also discourages the activity. That simple observation constitutes welcome news indeed, for not only do we desperately need additional tax revenue right now, but our economy is also bedeviled by a host of harmful activities. Taxes levied on those activities would kill two birds with one stone, helping to bring government budgets into balance while discouraging activities that cause more harm than good"*.

Although taxes can discourage activities, it also generates black-markets. Consumer preference doesn't change by simply enacting a new bill. Individuals are not mere robots that can be programmed to obey certain rules, just for the benefit of the society. As empiric data shows, once an activity is heavily regulated and taxed, consumers tend to choose a substitute which, in most cases, may be more pernicious.

The second argument, that newly enacted taxes could bring government budgets into balance is also a fallacious. As we have seen, the more money a Government has, the more it will spend. There is absolutely no reason to blindly believe that an increase in taxation will bring about a more efficient system of public goods. On the contrary, levying new taxes will only keep the *status quo* and grind to a halt the necessary reforms.

In a nutshell…

To put it mildly, Robert Frank's book pleads for more regulation of the market in an economy already overwhelmed by abusive laws and cartels, basing his arguments on examples from Darwin which show that competition is not (always) good for the group, although it may be beneficial for some individuals. Taking into account the absence of the free-market and the fact that government policies have become a crucial influence in consumer behavior, the request for more regulation seems odd.

Although the book has several implicit flaws (the irrationality of human beings, the belief in the omnipotent government that can solve any so called market failure simply through taxation, the myth that politicians are altruistic actors as opposed to the selfish profit seeking individuals in the market, the overlooking of private property as the fundamental institution for free trade) probably the most troublesome argument stems from the endless examples of human/animal behavior, as if there would be no difference between *homo sapiens* and any other mammals. This failed comparison leads to the inevitable misquoting of Darwin as being the first economist to understand the market process and the human behavior.

Unfortunately, Robert Frank sees competition not as it is, but as it ought to be, through his own self-interest, which clearly undermines the behavioral argument. The truth of the matter is that humans cooperate not for the good of the society, but for the benefit of each individual actor involved. Through this process everybody wins, as long as the cooperation is voluntary. Coercing individuals to act in certain ways, dictated by a central government, doesn't lead to the happiness of any individual (except for the central planners), let alone the whole society.