2016

Book Review (reviewing Guido Calabresi, The Future of Law and Economics: Essays in Reform and Recollection)

Eric A. Posner

replace licensing, at least for some "professions," with a system of certification. Kleiner points out that certification—whereby the government conditions use of a title such as "certified interior designer" on meeting educational criteria or passage of a test, but does not outlaw uncertified practice—has many of the benefits claimed for licensing without licensing's high price tag. This simple solution could provide consumers with choice, information about quality, and lower prices overall. Whether the guilds—in the form of state professional licensing boards—will stand for it is another matter altogether.

Rebecca Allensworth
Vanderbilt Law School

K Law and Economics

The Future of Law and Economics: Essays in Reform and Recollection. By Guido Calabresi. New Haven and London: Yale University Press, 2016. Pp. xi, 228. \$35.00. ISBN 978–0–300–19589–7, cloth. *JEL 2016–0255*

Guido Calabresi is a distinguished judge on the Second Circuit Court of Appeals. He was dean at Yale Law School and, before that, a law professor at Yale best known for his important early contributions to law and economics. He was one of the first academics to apply economic principles to tort law. He also wrote a highly influential article that used Ronald Coase's ideas to investigate why the law sometimes protects property rights by banning people from infringing on them ("property rules"), while at other times allowing people to violate property rights as long as they pay the market price of the infringement ("liability rules").

In this elegantly written book, Calabresi gives his thoughts about how law and economics—and economics proper—should be conducted. The book is best understood as an inquiry into method. His major claim is that economic models simplify excessively. While he acknowledges that simple models are useful, he thinks that the drive toward simplicity has prevented economists from understanding as much as they could.

Economists tend to assume that people have preferences over the goods and services they consume. But Calabresi points out that people can have complicated preferences about the operations of markets. He notes that some people seem to suffer disutility when the market is allowed to price certain kinds of goods, like kidneys. Economists who favor a market in kidneys because of the great social benefit it promises might be tempted to say "get over it." But it is not for the economist, says Calabresi, to question why people feel this way. And they feel this way not just about exotic institutions like kidney markets. Calabresi argues that tort law avoids explicitly "pricing" lives and limbs, but does assign implicit prices to them by awarding damages to "compensate" people for uncompensable harms like death, obfuscating a fact about social trade-offs that may make people uncomfortable. If the rules of tort law do not look economically optimal to economists, that may be because economists ignore people's preferences about the content of those rules.

Calabresi also asserts that economists do not take altruism seriously. He argues that not only are people altruistic—a fact that economists have frequently if perhaps grudgingly acknowledged—but people also want more people to be altruistic—that is, they have a preference for being among a greater number of altruistic people with a higher degree of altruism. Calabresi thinks that people approve of nonprofits because they think, rightly or wrongly, that nonprofits generate altruism rather than merely channeling it efficiently.

In a similar vein, Calabresi argues that people have preferences over institutional arrangements. In the long debate about markets versus "command" (regulation), economists "fail to consider that some people *like* markets, while others *like* command, and that this preference is in their utility functions" (p. 127). An economic analysis that extols (say) the voluntary army because it incorporates military service into the labor market is incomplete if people derive utility from the existence of a conscript army.

Calabresi says much more, but these three examples illustrate his general theme: if economists claim to treat people's preferences as exogenous, then they should treat *all* preferences as exogenous, not just those relating to goods and services. Economists should include in utility functions preferences against pricing, preferences for greater altruism, and preferences for regulations, among others. If they did so, they could explain much of the world that remains puzzling.

But models aren't intended to reflect all of reality; they need to be simple enough to generate insight. The weakness of this book is that Calabresi advocates modeling choices without demonstrating that they are fruitful. If people don't believe that courts should price lives and limbs, why do they tolerate this practice among regulatory agencies like the EPA? If people reject markets in kidneys, why do they accept markets in blood? It may be that economics can help answer these questions, but assuming that higher-order preference rankings account for these puzzles will end up begging the question.

It was thanks to simplifying models that economists were able to identify the possible social value of kidney markets and volunteer armies, as well as the costs and benefits of regulations. While it is important to recognize that many people disagree with these economic arguments—based on their moral commitments, disagreements about empirical premises, rejection of the rational actor model, and no doubt frequently on sheer confusion—it is not obvious that incorporating these disagreements into models will tell us anything we don't already know. Here, as in so many other settings, the proof is in the pudding. Still, many readers will find much of interest in Calabresi's engaging ruminations.

Eric Posner
University of Chicago Law School

N Economic History

Routledge Handbook of Major Events in Economic History. Edited by Randall E. Parker and Robert Whaples. London and New York: Taylor and Francis, Routledge, 2013. Pp. xxiii, 454. ISBN 978–0–415–67703–5, cloth; 978–0–203–06787–1, e-book.

JEL 2014–0251

One cannot help but notice certain key events standing out among the trends in most macroeconomic variables. These events not only shaped the way the economy grew, but also changed the way the world thought about economics and approached policy. While a general description of these events often comes to mind, the distinct details are foggy and spread across many papers and books. One of three new handbooks on Economic History edited by Randall Parker and Robert Whaples, this volume assembles a list of experts to bring readers up to speed on the details of thirty-five macroeconomic events. The handbook is not a collection of previously published papers. Rather, the short chapters bring together existing research to highlight why the event occurred, how it played out, and why it matters in a larger context.

To the handbook's credit, Parker and Whaples take an expansive view of the term "event." Instead of restricting the handbook to events that are focused in time, they open it up to broader events that play out over many years. Therefore, the handbook has chapters on typical historical events (e.g., World War I and the Great Depression), chapters on important time periods (e.g., the Great Merger Wave, the Roaring 1920s, and the Great Inflation of the 1970s) and chapters on series of events over time (e.g., world hyperinflations, government bailouts, and government debt). In a similar way, the editors also improve the handbook by not installing some arbitrary year cutoff to separate economic history from contemporary economics. The handbook thus stretches from the establishment of the First Bank of the United States in 1791 through actions taken after the recent financial crisis.

Since the chapters do not explicitly build on each other and there is no overarching narration, readers can just pick those periods, topics, or events that interest them. That said, reading many of the chapters on similar topics helps bring out and underline reoccurring themes. The chapters on World War I and II emphasize that while production ramps up during wars, the overall effect is not necessarily positive as the resulting loss of life and global economic instability have far-reaching repercussions. The chapters on financial panics (i.e., the Panics of 1873, 1893, and 1907, as well as the 1929 Stock Market Crash, the Great Depression, and the Financial Crisis of 2007–09) illustrate the underlying frictions that come with an interconnected financial system regardless of the time period or regulatory system. The chapters on monetary policy during the Great Depression and Great Recession emphasize the capacity of a central bank to improve