

At the Edge of Economics

From time to time I come up with something that I see as economics but others might not. Here are some examples:

The Rising Marginal Cost of Originality or What is Wrong with Modern Architecture, Art, ...

You are the first city planner in the history of the world. If you are very clever you come up with Cartesian coordinates, making it easy to find any address without a map or a GPS, neither of which has been invented yet.¹

You are the second city planner. Cartesian coordinates have already been done; you can't make a reputation by doing them again. If you are sufficiently ingenious you come up with some alternative, perhaps polar coordinates,² that works almost as well.

You are the two hundred and ninetieth city planner in the history of the world. All the good ideas have been used, all the so-so ideas have been used, and you need something new to make your reputation. You design Canberra. That done, you design the Combs building at Australian National University in Canberra, the most ingenious example of bad design in my personal experience, a building designed in such a way that, after walking around for a few minutes, you not only do not know where you are you do not even know what floor you are on.

I call it the theory of the rising marginal cost of originality — formed long ago when I spent a summer visiting at ANU. It explains why, to a first approximation, modern art is not worth looking at, modern music is not worth listening to, and modern literature and verse not worth reading. Writing a novel like one of Jane Austen's or a poem like one by Donne or Kipling, only better, is hard. Easier to deliberately adopt a form that nobody else has used and so guarantee that nobody else has done it better.

There might be a reason nobody else has used it.³

Economics of Vice and Virtue: Implications of the Hawk/Dove Game

Picking up a subject discussed in Chapter XXX [Making Economics Fun] suppose I am strong, fierce, and known to have a short temper with people who do not do what I want. I benefit from that reputation; people are careful not to do things that offend me. Beating someone up is expensive; he might fight back and I might get arrested. But if my reputation is bad enough, I may not have to beat anyone up.

If almost nobody follows this strategy I am unlikely to encounter another bully, so unlikely to have to carry through on my threat; on average the strategy pays. Since it pays, other people adopt it. As the number increases, the risk of lethal brawls rises and the payoff to being a bully falls.

¹ Cartesian coordinates were invented by Descartes in the 17th century but, according to Harry Turtledove, Byzantine scholar and author of, among other things, historical fiction set in classical antiquity, Cartesian cities existed then. I don't actually know if they predated maps. There is also [evidence](#) for something similar in 8th century Japan.

² My example used to be Paris, but it is not all that polar. A better example is the Undercity in *World of Warcraft*.

³ My [blog post](#) on this subject set off an interesting comment thread. A number of people argued that I was unfairly comparing the best work of the past, that being what survived for us to see, with the average of the present.

Equilibrium is reached when the risk from opponents who do not back down just balances the gain from opponents who do, making the alternative strategies – bully and wimp in my story, hawk and dove in the version told by evolutionary biologists – equally profitable.

I have assumed an involuntary association between the bully and his victims; he is simply an unpleasant part of their environment. As long as that is the case there is a payoff to an aggressive personality, provided that there are not too many of them. That is not true for voluntary associations; someone who can choose whether or not to associate with the bully will choose not to. Informing a potential employer that if, having hired you, he fails to treat you right you will beat him up is not likely to get you the job.

In voluntary associations, there is a payoff to a different commitment strategy. Someone known to be considerate, courteous, the sort of person who never takes advantage of other people, who would never steal even if nobody was watching, is a desirable employer, employee, partner, or spouse. To the extent that other people can correctly read your personality, it is in your selfish interest to train yourself to be a nice guy. Hiring honest people saves not only the cost of theft but also the cost of guarding against theft. That saving will show up in the difference between what honest and dishonest people get paid.

Here again, we would expect something like a hawk-dove equilibrium, although for a different reason. If almost everyone is honest it is not worth paying much attention to how honest any particular person is, so a strategy of appearing honest but cheating when you think you can get away with it is profitable. As the number of hypocrites increases, so does the care other people take to identify them. The equilibrium ratio of hypocrites to honest men is reached when the two strategies have the same payoff.

This approach to understanding why people are or are not nice has an interesting implication. Being a bad person, an aggressive personality, is profitable in involuntary interactions. Being a good person is profitable in voluntary interactions. We would expect to see nicer people, more honesty and fewer bullies, in a society where most interactions are voluntary than in one where most are involuntary.

Ritual and Symbolic Thrift

Enrollment in American law schools [declined sharply](#) from 2010 to 2015, with the result that law schools, including the one I then taught at, faced serious budget problems. The obvious response was to cut expenditures. A particularly visible example, at least in our case, was abandoning the practice of serving catered food at faculty meetings and similar events.

The total amount saved understates the effectiveness of the change for two different reasons. The first is that it is hard to persuade other people that they should be careful to hold down expenditures if you are not doing so yourself. Catered meals are a visible extravagance provided mostly for the benefit of the faculty, and it is the faculty who, to a considerable extent, run the school. Abandoning them is a way of signaling staff members that they too should be willing to make do on less money.

The second reason is one that I intuit better than I can explain; it has something to do with the different feel of different human organizations. Consider at one extreme a loving family where every member takes it for granted that he ought to take account of the welfare of the other members in his decisions. Consider at the other extreme a bureaucratic organization, public or private, where

the individual concern is not with the consequences of his acts but with the paper trail, his ability to prove to the satisfaction of his superiors that he has done what he should do, whether or not it is true.

Most organizations lie somewhere between those two extremes, depending in part on their size; it is easier to know and care about four other people than four thousand. Most organizations, however large and bureaucratic, make some attempt to take advantage of the family level feelings in order to motivate their members to act in the interest of the organization and the other members; large formal organizations are less likely to succeed than small informal ones. How successful they are depends in part on how much the organization feels like a family, how much like a bureaucracy. Sharing hardship is the sort of thing a family does.

When my school stopped serving lunch at faculty meetings, I started bringing home made chocolate chip cookies and passing them around. Sharing food you have made yourself feels like family too.

During the same period, the law school had decided to organize free lunches once a week for the students, food made by volunteer labor, student, staff, or faculty. The argument for doing so was that some law students, having spent all their money on tuition, were going hungry. I found that unconvincing. Most people who can afford the cost of law school have enough left over for at least minimal nutrition. Providing free lunches for a hundred people in order to feed three or four is a strikingly inefficient form of charity.

That was my initial reaction; I think it was correct in terms of the argument offered for the program. But the same argument that persuaded me to bake cookies for my colleagues also applies to feeding our students; it makes sense not as nutrition but as ritual, a way of making people feel like family. I not only bake chocolate chip cookies, I also bake bread, and my wife, during her years living on what universities pay their graduate teaching assistants, had concluded that baking her own bread was the best way of getting luxury food on the cheap.

So I contributed home made bread to the weekly student free lunch.

Contra Specialization

A child's birthday party as I remember them, both as child and parent, consisted of the child's friends and acquaintances coming over to his house, entertaining themselves with squirt gun battles in the back yard and/or party games or board games inside, singing "Happy Birthday" and consuming (at least) cake and ice cream. The final stage was the opening of presents, followed by the retrieval of the guests by their parents, the whole process more or less organized or chaotic according to the tastes and abilities of the hosts.

A decade or so ago I attended my grandson's birthday party, held at a facility obviously designed for the purpose. The entertainment, preceded by a safety video, consisted of playing on and in large inflatable structures—slides, a bouncy room, an obstacle course. That was followed by cake and pizza, after which everyone went home, the birthday boy accompanied by a bag of unopened presents.

Looking at it as an economist, it is clear that the change from then to now represents an increased division of labor, something that, as an economist, it is hard for me to object to. And yet I do object to it, and I do not think the reason is entirely a conservative preference for the way things used to be. For somewhat similar reasons, I find having guests over for dinner a different, and better,

practice than taking them out to a restaurant. Homes have an emotional dimension to them. To invite someone into your home, whether an adult colleague or a child's friend, is to some small degree to treat him as part of your family.

Another context in which I have observed increased specialization, the substitution of commercial for home production, is the Society for Creative Anachronism, a group that does historical recreation of the Middle Ages and Renaissance. In the early years of the Society, forty or fifty years ago, if you wanted medieval clothing you researched it yourself and made it yourself or, if you were lucky, got a friend who was better at it to make it for you. The same applied to most of the rest of what you had — rattan swords, most or all of your armor, jewelry, tents, even shoes if you wanted something more period looking than you could buy in a shoe store.

Nowadays you can go to the Pennsic War, the Society's largest annual event, or online, and buy clothing, swords, armor, jewelry, tents, shoes. In some ways it is a great improvement; the quality and historical authenticity of what you can buy, sometimes at quite reasonable prices, is considerably better than what most of us managed to make for ourselves. The best work now, done by specialists, is better than the best was forty years ago and available to many more people.

Something is gained, but something else is lost. Part of the fun in the early days was having an excuse to learn and practice a wide variety of crafts, research things for yourself instead of depending on what other people told you.

At one Pennsic a few years ago I made the acquaintance of a group that camped near us but that, for some reason, I had not previously encountered. Many of their tents, much of their furniture, they had made for themselves. They called themselves the clockmaker's guild, and one of their members had indeed built a clock, which he showed me. It was made of wood and worked without a pendulum, the pendulum clock being, he told me, an invention that appeared just after the SCA's cutoff of 1600 A.D.

They were my kind of people.

A human being should be able to change a diaper, plan an invasion, butcher a hog, conn a ship, design a building, write a sonnet, balance accounts, build a wall, set a bone, comfort the dying, take orders, give orders, cooperate, act alone, solve equations, analyze a new problem, pitch manure, program a computer, cook a tasty meal, fight efficiently, die gallantly. Specialization is for insects.

-Robert A. Heinlein

Rational Bigotry?

One of the puzzling things about certain political and cultural conflicts is how strongly people feel about them. I can understand why some people would prefer that homosexuals not be permitted to marry; it is harder to understand why they care so much. Similarly for same sex couples adopting. Similarly for polygamy. And similarly — I think the most interesting case of all — for attitudes towards transsexuals, individuals who have undergone a sex change operation. In each case, the obvious question is why A cares so much about what B, or B and C, or even B, C, D, and E are doing.

I have a conjecture about part of the answer.

The world is a complicated place. One way in which we deal with that complication, in law and thought, is by representing a complicated reality with a much simpler model. There are lots of examples:

Some people are more mature than others, in one or another dimension. For many purposes we lump all those differences, along with the continuous range of ages, into two categories—children and adults. Doing it that way makes it a lot easier, in law and in conversation, to deal with issues where maturity matters at the cost, as with any simplification, of sometimes getting the wrong answer.

If we define gender by genitals, hermaphrodites are both male and female, eunuchs in some sense neither. If we define it by DNA, some apparent males are female, some apparent females male. Some people are neither XX nor XY, some both. Nonetheless, we continue to classify people, in the law and inside our heads, as either men or women. Most of the time the simplification fits the reality, occasionally it doesn't.

Someone who does not fit our categories is a problem not because he is doing anything to us but because his existence makes it harder for us to use our simplified models to make sense of the world. The problem only exists if we are aware of it — XXY genetics existed a century ago, but nobody knew about them. Hermaphrodites existed and were known to exist but nobody you knew was a hermaphrodite, or if someone was you didn't know about it, so there was no problem for your day to day attempt to use a simplified map to navigate social space.

One example of this problem was the breakdown of marriage. It used to be that people could be usefully classified as married or not married, which simplified a good deal of social calculation. As it became increasingly common for couples to openly live together without being married, the classification began to break down. That made it harder to figure out whether you had to invite A to dinner if you invited B, whether you were free to court A, and how to briefly sum up your knowledge of the status of A and B when talking with C.

Transsexuals provide a particularly striking example of the problem. If you knew him as a male and now know her as a female, there is a real problem fitting him/her into your mental picture of the world, a problem that shows up in, among other places, my discomfort with using either gendered adjective. I can see how other people might find similar difficulties in fitting into their heads polygamous families, same sex married couples, children with two mommies, and much else.

I am not, of course, arguing that other people have an obligation to make their lives fit my picture. Maintaining my map of the world is my problem, not theirs; reality has no obligation to conform. But the discomfort which comes when reality changes in ways that make obsolete what used to be an adequate set of simplifications provides at least a partial explanation for the strength of the response.

When I raised this idea on my blog, one commenter pointed out an interesting parallel:

The argument from complexity is intriguing. It is similar to the Smith-Merrill (?) argument for why there has been a limited number of ways in which you can hold property, in contrast to the extreme flexibility of contracts. They argue that if someone comes up with an odd new kind of property, everyone else has to worry that they aren't buying what they think they are buying, and transaction costs rise.

Economics of Language and Courtesy

The [Gricean maxims](#) are a set of rules for conversation:

“Although Grice presented them in the form of guidelines for how to communicate successfully, I think they are better construed as presumptions about utterances, presumptions that we as listeners rely on and as speakers exploit.” (Bach 2005).

The maxims can thus be seen as an example of the economic approach to understanding behavior, the assumption that individuals have objectives and tend to choose the best way of achieving them. The objective is communication, the maxims describe how best to do it, and a listener dealing with potential ambiguity in speech, for example ambiguity in the meaning of “most,” can often resolve it by assuming that the speaker is using the word with a meaning that achieves that objective. Where what is relevant is which candidate won an election, “most” is likely to mean a majority or a plurality: “The party that got most votes was ...”. Where what is relevant is whether or not there is a substantial minority for whom a statement is not true, “most” is likely to mean an overwhelming majority: “Most of my students understand English, so there is no need to provide translations of the readings into other languages.”

For a second application of economics, consider how you react when someone cuts into the checkout line ahead of you. One possible response is to accuse him of cutting into line. An alternative is to point out to him where the end of the line is, with the implication that he merely made a mistake. Your objective is to get him to go back to the end of the line with a minimum of unpleasantness. By treating his act as a mistake I lower the cost to him of doing what I want, since doing so does not require him to implicitly confess a deliberate violation of local norms. Lowering the cost to him of doing what I want makes him more likely to do it: Courtesy explained by economics.

If, instead of offering the norm violator an easy out, I loudly upbraid him, he will be less likely to quietly concede his error. But, since I will have raised the cost to him of cutting into line, he may be less likely to do it again. If my objective were the general good rather than my own private good, that might be the sensible choice, deterring future offenses against other people at some cost in current unpleasantness. One explanation of courtesy is that its function is to maintain social harmony. In this case, being courteous arguably sacrifices the general good for my private good, as economics would predict.