

Economics is Dead. Long Live Economics! A Review of The Economists' Hour  
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[Ben Sperry](#)

*The*  
**ECONOMISTS'  
HOUR**



**FALSE PROPHETS,  
FREE MARKETS, AND THE  
FRACTURE OF SOCIETY**

**Binyamin Appelbaum**

John Maynard Keynes wrote in his famous [\*General Theory\*](#) that “[t]he ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.”

This is true even of those who wish to criticize the effect of economic thinking on society. In his new book, [\*The Economists’ Hour: False Prophets, Free Markets, and the Fracture of Society\*](#), New York Times economics reporter Binyamin Appelbaum aims to show that economists have had a detrimental effect on public policy. But the central irony of the *Economists’ Hour* is that in criticizing the influence of economists over policy, Appelbaum engages in a great deal of economic speculation himself. Appelbaum would discard the opinions of economists in favor of “the lessons of history,” but all he is left with is unsupported economic reasoning.

Much of *The Economists’ Hour* is about the history of ideas. To his credit, Appelbaum does a fair job describing Anglo-American economic thought post-New Deal until the start of the 21st century. Part I mainly focuses on macroeconomics, detailing the demise of the Keynesian consensus and the rise of the monetarists and supply-siders. If the author were not so cynical about the influence of economists, he might have represented these changes in dominant economic paradigms as an example of how science progresses over time.

Interestingly, Appelbaum often makes the case that the insights of economists have been incredibly beneficial. For instance, in the opening chapter, he describes how Milton Friedman (one of the main protagonists/antagonists of the book, depending on your point of view) and a band of economists (including Martin Anderson and Walter Oi) fought the military establishment and ended the draft. For that, I’m sure most of us born in the past fifty years would be thankful. One suspects that group includes Appelbaum, though he tries to find objections, claiming for example that “by making war more efficient and more remote from the lives of most Americans, the end of the draft may also have made war more likely.”

Appelbaum also notes positively that economists, most prominently Alfred Kahn in the United States, led the charge in a largely beneficial deregulation of the airline and trucking industries in the late 1970s and early 1980s.

Yet, overall, it is clear that Appelbaum believes the “outsized” influence of economists over policymaking itself fails the cost-benefit analysis. Appelbaum focuses on the costs of listening too much to economists on antitrust law, trade and development, interest rates and currency, the use of cost-benefit analysis in regulation, and the deregulation of the financial services industry. He sees the deregulation of airlines and trucking as the height of the economists’ hour, and its close with the financial crisis of the late-2000s. His thesis is that (his interpretation of) economists’ notions of efficiency, their (alleged) lack of concern about distributional effects, and their (alleged) myopia has harmed society as their influence over policy has grown.

In his chapter on antitrust, for instance, Appelbaum admits that even though “[w]e live in a new era of giant corporations... there is little evidence consumers are suffering.” Appelbaum argues instead that lax antitrust enforcement has resulted in market concentration harmful to workers, democracy, and innovation. In order to make those arguments, he uncritically cites the work of economists and non-economist legal scholars that make economic claims. A closer inspection of each of these (economic) arguments suggests there is more to the story.

First, recent research questions the narrative that increasing market concentration has resulted in harm to consumers, workers, or society. In their recent paper, “[The Industrial Revolution in Services](#),” Chang-Tai Hsieh of the University of Chicago and Esteban Rossi-Hansberg of Princeton University argue that increasing concentration is primarily due to technological innovation in services, retail, and wholesale sectors. While there has been greater concentration at the national level, this has been accompanied by increased competition locally as national chains expanded to more local markets. Of note, employment has increased in the sectors where national concentration is rising.

The rise in national industry concentration in the US between 1977 and 2013 is driven by a new industrial revolution in three broad non-traded sectors: services, retail, and wholesale. Sectors where national concentration is rising have increased their share of employment, and the expansion is entirely driven by the number of local markets served by firms. Firm employment per market has either increased slightly at the MSA level, or decreased substantially at the county or establishment levels. In industries with increasing concentration, the expansion into more markets is more pronounced for the top 10% firms, but is present for the bottom 90% as well. These trends have not been accompanied by economy-wide concentration. Top U.S. firms are increasingly specialized in sectors with rising industry concentration, but their aggregate employment share has remained roughly stable. We argue that these facts are consistent with the availability of a new set of fixed-cost technologies that enable adopters to produce at lower marginal costs in all markets. We present a simple model of firm size and market entry to describe the menu of new technologies and trace its implications.

In other words, any increase in concentration has been sector-specific and primarily due to more efficient national firms expanding into local markets. This has been associated with lower prices for consumers *and* more employment opportunities for workers in those sectors.

Appelbaum also looks to Lina Khan’s law journal [article](#), which attacks Amazon for allegedly engaging in predatory pricing, as an example of a new group of young scholars coming to the conclusion that there is a need for more antitrust scrutiny. But, as ICLE scholars Alec Stapp and Kristian Stout have [pointed out](#), there is very little evidence Amazon is actually

engaging in predatory pricing. Khan's article is a challenge to the consensus on how to think about predatory pricing and consumer welfare, but her underlying economic theory is premised on Amazon having such a long time horizon that they can lose money on retail for decades (even though it has been profitable for some time), on the theory that someday down the line they can raise prices after they have run all retail competition out.

Second, Appelbaum argues that mergers and acquisitions in the technology sector, especially acquisitions by Google and Facebook of potential rivals, has decreased innovation. Appelbaum's belief is that innovation is spurred when government forces dominant players "to make room" for future competition. Here he draws in part on claims by some economists that dominant firms sometimes engage in "killer acquisitions" — acquiring nascent competitors in order to reduce competition, to the detriment of consumer welfare. But a simple model of how that results in reduced competition must be balanced by a recognition that many companies, especially technology startups, are incentivized to innovate in part by the possibility that they will be bought out. As noted by the authors of [the leading study](#) on the welfare effects of alleged "killer acquisitions",

"it is possible that the presence of an acquisition channel also has a positive effect on welfare if the prospect of entrepreneurial exit through acquisition (by an incumbent) spurs ex-ante innovation .... Whereas in our model entrepreneurs are born with a project and thus do not have to exert effort to come up with an idea, it is plausible that the prospect of later acquisition may motivate the origination of entrepreneurial ideas in the first place... If, on the other hand, killer acquisitions do increase ex-ante innovation, this potential welfare gain will have to be weighed against the ex-post efficiency loss due to reduced competition. Whether the former positive or the latter negative effect dominates will depend on the elasticity of the entrepreneur's innovation response."

This analysis suggests that a case-by-case review is necessary if antitrust plaintiffs can show evidence that harm to consumers is likely to occur due to a merger.. But shifting the burden to merging entities, as Appelbaum seems to suggest, will [come with its own costs](#). In other words, more economics is needed to understand this area, not less.

Third, Appelbaum's few concrete examples of harm to consumers resulting from "lax antitrust enforcement" in the United States come from airline mergers and telecommunications. In both cases, he sees the increased attention from competition authorities in Europe compared to the U.S. at the explanation for better outcomes. Neither is a clear example of harm to consumers, nor can be used to show superior antitrust frameworks in Europe versus the United States.

In the case of airline mergers, Appelbaum argues the gains from deregulation of the industry have been largely given away due to poor antitrust enforcement and prices stopped falling, leading to a situation where "[f]or the first time since the dawn of aviation, it is

generally cheaper to fly in Europe than in the United States.” This is hard to square with the data.

As explained in a recent [blog post on Truth on the Market](#) by ICLE’s chief economist Eric Fruits:

While the concentration and profits story fits the antitrust populist narrative, other observations run contrary to [this] conclusion. For example, airline prices, as measured by price indexes, show that changes in U.S. and EU airline prices have fairly [closely](#) tracked each other until 2014, when U.S. prices began dropping. Sure, airlines have instituted baggage fees, but the CPI includes taxes, fuel surcharges, airport, security, and baggage fees. It’s not obvious that U.S. consumers are worse off in the so-called era of rising concentration.

In fact, one recent study, titled [Are legacy airline mergers pro- or anti-competitive? Evidence from recent U.S. airline mergers](#) takes it a step further. Data from legacy U.S. airline mergers appears to show they have resulted in pro-consumer benefits once quality-adjusted fares are taken into account:

Our main conclusion is simple: The recent legacy carrier mergers have been associated with pro-competitive outcomes. We find that, on average across all three mergers combined, nonstop overlap routes (on which both merging parties were present pre-merger) experienced statistically significant output increases and statistically insignificant nominal fare decreases relative to non-overlap routes. This pattern also holds when we study each of the three mergers individually. We find that nonstop overlap routes experienced statistically significant output and capacity increases following all three legacy airline mergers, with statistically significant nominal fare decreases following Delta/Northwest and American/USAirways mergers, and statistically insignificant nominal fare decreases following the United/Continental merger...

One implication of our findings is that any fare increases that have been observed since the mergers were very unlikely to have been caused by the mergers. In particular, our results demonstrate pro-competitive output expansions on nonstop overlap routes indicating reductions in quality-adjusted fares and a lack of significant anti-competitive effects on connecting overlaps. Hence, our results demonstrate consumer welfare gains on overlap routes, without even taking credit for the large benefits on non-overlap routes (due to new online service, improved service networks at airports, fleet reallocation, etc.). While some of our results indicate that passengers on non-overlap routes also benefited from the mergers, we leave the complete exploration of such network effects for future research.

In other words, neither part of Applebaum’s proposition, that Europe has cheaper fares and that concentration has led to worse outcomes for consumers in the United States, appears to be true. Perhaps the influence of economists over antitrust law in the United States has not been so bad after all.

Appelbaum also touts the lower prices for broadband in Europe as an example of better competition policy over telecommunications in Europe versus the United States. While prices are lower on average in Europe for broadband, this obfuscates distribution of prices depending on speed tiers. UPenn Professor Christopher Yoo’s 2014 study titled [U.S. vs. European Broadband Deployment: What Do the Data Say?](#) found:

U.S. broadband was cheaper than European broadband for all speed tiers below 12 Mbps. U.S. broadband was more expensive for higher speed tiers, although the higher cost was justified in no small part by the fact that U.S. Internet users on average consumed 50% more bandwidth than their European counterparts.

Population density also helps explain differences between Europe and the United States. The closer people are together, the easier it is to build out infrastructure like broadband Internet. The United States is considerably more rural than most European countries. As a result, consideration of prices and speed need to be adjusted to reflect those differences. For instance, the FCC’s 2018 [International Broadband Data Report](#) shows a move in position from 23rd to 14th for the United States compared to 28 (mostly European) other countries once population density and income are taken into consideration for fixed broadband prices (Model 1 to Model 2). The United States climbs even further to 6th out of the 29 countries studied if data usage is included and 7th if quality (i.e. websites available in language) is taken into consideration (Model 4).

Country	Model 1		Model 2		Model 3		Model 4	
	Price	Rank	Price	Rank	Price	Rank	Price	Rank
Australia	\$78.30	28	\$82.81	27	\$102.63	26	\$84.45	23
Austria	\$48.04	17	\$60.59	15	\$73.17	11	\$74.02	17
Belgium	\$46.82	16	\$66.62	21	\$75.29	13	\$81.09	22
Canada	\$69.66	27	\$74.99	25	\$92.73	24	\$76.57	19
Chile	\$33.42	8	\$73.60	23	\$83.81	20	\$88.97	25
Czech Republic	\$26.83	3	\$49.18	6	\$69.91	9	\$60.49	6
Denmark	\$43.46	14	\$52.27	8	\$69.37	8	\$63.85	8
Estonia	\$30.65	6	\$56.91	12	\$81.68	19	\$69.06	12
Finland	\$35.00	9	\$37.95	1	\$57.49	2	\$51.61	1
France	\$30.12	5	\$44.04	4	\$61.96	4	\$54.25	3
Germany	\$36.00	12	\$53.62	10	\$75.09	12	\$66.06	11
Greece	\$35.38	10	\$64.51	19	\$80.72	17	\$78.66	21

Iceland	\$65.78	25	\$73.96	24	\$94.85	25	\$90.39	26
Ireland	\$56.79	22	\$62.37	16	\$76.46	14	\$64.83	9
Italy	\$29.62	4	\$48.00	5	\$68.80	7	\$59.00	5
Japan	\$40.12	13	\$53.58	9	\$81.47	18	\$72.12	15
Latvia	\$20.29	1	\$42.78	3	\$63.05	5	\$52.20	2
Luxembourg	\$56.32	21	\$54.32	11	\$76.83	15	\$72.51	16
Mexico	\$35.58	11	\$91.29	29	\$120.40	29	\$109.64	29
Netherlands	\$44.39	15	\$63.89	18	\$89.51	21	\$77.88	20
New Zealand	\$59.51	24	\$81.42	26	\$90.55	22	\$76.25	18
Norway	\$88.41	29	\$71.77	22	\$103.98	27	\$96.95	27
Portugal	\$30.82	7	\$58.27	13	\$72.83	10	\$71.15	14
South Korea	\$25.45	2	\$42.07	2	\$52.01	1	\$56.28	4
Spain	\$54.95	20	\$87.69	28	\$115.51	28	\$106.53	28
Sweden	\$52.48	19	\$52.16	7	\$61.08	3	\$70.41	13
Switzerland	\$66.88	26	\$65.01	20	\$91.15	23	\$84.46	24
United Kingdom	\$50.77	18	\$63.75	17	\$79.88	16	\$65.44	10
<b>United States</b>	<b>\$58.00</b>	<b>23</b>	<b>\$59.84</b>	<b>14</b>	<b>\$64.75</b>	<b>6</b>	<b>\$62.94</b>	<b>7</b>
Average	\$46.55		\$61.70		\$80.24		\$73.73	

Model 1: Unadjusted for demographics and content quality

Model 2: Adjusted for demographics but not content quality

Model 3: Adjusted for demographics and data usage

Model 4: Adjusted for demographics and content quality

Furthermore, investment and buildout are other important indicators of how well the United States is doing compared to Europe. Appelbaum fails to consider all of these factors when comparing the European model of telecommunications to the United States'. Yoo's conclusion is an appropriate response:

The increasing availability of high-quality data has the promise to effect a sea change in broadband policy. Debates that previously relied primarily on anecdotal evidence and personal assertions of visions for the future can increasingly take place on a firmer empirical footing.

In particular, these data can resolve the question whether the U.S. is running behind Europe in the broadband race or vice versa. The U.S. and European mapping studies are clear and definitive: These data indicate that the U.S. is

ahead of Europe in terms of the availability of Next Generation Access (NGA) networks. The U.S. advantage is even starker in terms of rural NGA coverage and with respect to key technologies such as FTTP and LTE.

Empirical analysis, both in terms of top-level statistics and in terms of eight country case studies, also sheds light into the key policy debate between facilities-based competition and service-based competition. The evidence again is fairly definitive, confirming that facilities-based competition is more effective in terms of driving broadband investment than service-based competition.

In other words, Appelbaum relies on bad data to come to his conclusion that listening to economists has been wrong for American telecommunications policy. Perhaps it is his economic assumptions that need to be questioned.

## Conclusion

At the end of the day, in antitrust, environmental regulation, and other areas he reviewed, Appelbaum does not believe economic efficiency should be the primary concern anyway. For instance, he repeats the common historical argument that the purpose of the Sherman Act was to protect small businesses from bigger, and often more efficient, competitors.

So applying economic analysis to Appelbaum's claims may itself be an illustration of caring too much about economic models instead of learning "the lessons of history." But Appelbaum inescapably assumes economic models of its own. And these models appear less grounded in empirical data than those of the economists he derides. There's no escaping mental models to understand the world. It is just a question of whether we are willing to change our mind if a better way of understanding the world presents itself. As Keynes [is purported to have said](#), "When the facts change, I change my mind. What do you do, sir?"

For all the criticism of economists, there at least appears to be a willingness among them to change their minds, as illustrated by the increasing appreciation for anti-inflationary monetary policy among macroeconomists described in *The Economists' Hour*. The question which remains is whether Appelbaum and other critics of the economic way of thinking are as willing to reconsider their strongly held views when they conflict with the evidence.

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