

How Behavioral Economics
Can Improve Outcomes for
You, Your Business,
and Your Nation

Objective Prosperity

EXCERPT

Roger D. Blackwell, PhD

Roger A. Baily, PhD

OBJECTIVE PROSPERITY

How Behavioral Economics Can Improve Outcomes for You, Your Business, and Your Nation

Roger D. Blackwell, Ph.D.

Retired Professor, The Ohio State University

Roger A. Bailey, Ph.D.

Clinical Assistant Professor, The Ohio State University



Print – ISBN: 978-1-944480-77-6

EPUB – 978-1-944480-78-3

PDF eBOOK – 978-1-944480-79-0



**ROTHSTEIN
PUBLISHING**

A Division of Rothstein Associates Inc.

OBJECTIVE PROSPERITY

How Behavioral Economics Can Improve Outcomes for You, Your Business, and Your Nation

COPYRIGHT ©2022, Roger D. Blackwell and Roger A. Bailey

All Rights Reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form by any means, electronic, mechanical, photocopying, recording, or otherwise, without the express prior permission of the Publisher.

The Publisher or Authors assume no responsibility for any injury or damage to persons or property as a matter of product liability, negligence or otherwise, or from any use or operation of any methods, products, instructions, or ideas contained in the material herein. Local laws, standards, and regulations should always be consulted first, as well as your legal counsel before considering any advice offered in this book.

Print – ISBN: 978-1-944480-77-6

EPUB – 978-1-944480-78-3

PDF eBook– 978-1-944480-79-0

Library of Congress Control Number: 2022936498



**ROTHSTEIN
PUBLISHING**

A Division of Rothstein Associates Inc.

**4 Arapaho Road
Brookfield, Connecticut 06804 USA
203.740.7400**

info@rothstein.com

www.rothsteinpublishing.com



What Your Colleagues Are Saying About Objective Prosperity

“This book will make you think. What factors influence the chances for individual success and national prosperity? How does behavioral economics help us understand who is financially rewarded? How can you prosper even if you were born poor? What is the best way to manage your savings? The authors cite the thoughts of many profound thinkers on how to live a rewarding life.”

- *Philip Kotler, S.C. Johnson & Son Distinguished Professor of International Marketing, emeritus, Kellogg School of Management, Northwestern University*

“I really connected with the chapter that discusses the effort that must be put into those things that we find worthwhile or valuable to move us forward in our lives – mentors, discipline, education, personal responsibility and individual responsibility.”

- *Deborah M. O'Brien, BS, RN, MPA, President, and Chief Executive Officer Community Resources for Justice*

“This book is a profound analysis of the roles of business, government, education, and personal responsibility in growing prosperity for everyone.’

- *Loretta Berryhill, California Business Owner*

“You will enjoy reading this book. The authors “colorize” principles with real-world examples from the individual (micro) level to that of nation-states (macro). Examples of successful (and less so) country policies are truly telling. They apply to political, business, and civic leaders not only at the federal but also at the state and local levels as well. The “solutionist” thread weaving its way through the book presents a unique perspective on how to approach issues on a broad range of topics.”

- *The Hon Sunil Sabharwal, former US board member to the International Monetary Fund, global Olympic sports leader, investor, and champion fencer.*



“This book is one of the first that I could not put down the first read and enjoyed reading it the 2nd and 3rd times even more. Each time I found new thoughts expanding through my head. One is that we can no longer broad brushstroke economic models with the multi-layered behavioral changes around us in this hyper-informational age. This book is a must-read for any entrepreneur, like me in the automotive industry, to keep our eyes open to the rapidly changing consumer environment and how to think ahead.”

- *Rhett C. Ricart, Chief Executive Officer and Dealer Principal
2020 Chairman National Automobile Dealers Association*

“There are few things more powerful than understanding why people behave the way they do. Here, the leading teacher of consumer behavior for the past half-century, with an accomplished marketing and economics colleague, explains it. This book is a virtual treasure chest of knowledge and understanding, about how behavioral economics helps people reach their ultimate objective – prosperity.”

- *John Mariotti, President & CEO, The Enterprise Group*



Dedicated To

**Highly-Intelligent Readers Who
Appreciate Facts More than
Opinions**



Foreword

STOP reading! Now, do I have your attention? NO – DON'T STOP reading!

Don't make the mistake I almost made of being put off by “Economics” in the subtitle. At first, I questioned, “who wants to read a 250-page book on economics?” Then I read a little more, skipped and skimmed based on the Preface. My first impression was wrong, as I found when I got deeper into the book's content.

I kept on reading, often peeking ahead to see where the book was going. The more I read, the more I liked it. I quickly realized that “prosperity” could also describe success, survival, happiness, and a host of other desirable outcomes. I also learned a lot along the way because the book is very rich in wisdom, and experience. I've known Roger Blackwell for 40 years and I've learned that when he has something to say – I listen!

I soon realized that the combination of “consumer behavior” and “economics,” (i. e., “behavioral economics”) is very powerful. Each of us will find our own treasures in this book. When I wondered how to stay on the path to prosperity, the “Keys” kept helping me.

There are few things more powerful than understanding why people behave the way they do. Here, the leading teacher of consumer behavior for the past half-century, with an accomplished marketing and economics colleague, explains it. I saw that not only individuals but also groups (companies, organizations, and even countries) were made up of people behaving in ways that serve their self-interest, seeking the rewards and prosperity.

Few books contain and explain so much content to help readers understand this. Everyone has similar objectives: success, gratification, recognition, and, ultimately, prosperity – each defined in their own unique context and terms. As I read further, chapters describe how diverse people learned and earned, or fought, to achieve prosperity (including enduring unintended consequences of even good ideas). This book is a virtual treasure chest of knowledge and understanding, about how behavioral economics helps people reach their ultimate objective – **prosperity**.

Suddenly, I found myself at the end, reading “Roger’s Rules for Success.” I was gratified, wiser, and far more aware of many things that I didn’t understand as well before. Above all, I was happy I didn’t take my own opening advice and STOP reading. I hope you will not stop but keep on reading. FYI: I found this book so rich in content, that it deserves a second or third reading.

John Mariotti

President & CEO, The Enterprise Group

Former Chairman, World Kitchen

Former President, Rubbermaid, Office Product Division

Former President, Huffy Bicycles

Former Chairman & Director, World Kitchen LLC

Powell, Ohio

July 2022



Preface

If you have ever heard Economics called “The Dismal Science,” prepare to reset and propel your thinking about economics at quantum speed. Would you call it “dismal” to know how poor people of diverse racial, ethnic, and educational backgrounds escape poverty and become prosperous? Do you know how the ironic inequality paradox allows some people born in the bottom twenty percent to elevate themselves to the top twenty percent? Would you call it dismal or exciting to learn how, starting around age 45, to gradually become very prosperous with nothing more than what you have earned and learned working many years in a retail store?

Do you know how to grow up in one of the poorest nations in the world, called by some a “malaria-infested swampland” and see it become a nation more prosperous than the United States? Do you believe people in the Netherlands or Saudi Arabia are more prosperous? Do you know how the United States started equal in per capita income with the rest of the world to become one of the wealthiest nations in the world (but not *the* wealthiest)?

If you already know the answers to these questions, you probably don’t need to read this book other than, perhaps, to have facts that will help you explain to friends who may not know them. But if you choose to read the rest of the book, you will find these answers and more about how to increase your own prosperity as well as understand why nations are poor or prosperous. And, perhaps, you will conclude the study of Behavioral Economics is not dismal, maybe even delightful.

Behavioral Economics is considered a new field of study by some, but as you will see in Chapter Two, it has many of the attributes of traditional wedding attire, “something old, something new, something borrowed, something blue.” If

you already know a lot about economics, you can skip Chapter One, but you may want to review it to be sure you understand two concepts essential to understanding how you prosper and contribute to national prosperity.

You may be tempted to go straight to the two most practical chapters in the book, “National Prosperity” (explaining why some nations are rich and other nations poor) and “How to Be Prosperous Instead of Poor.” (Chapters 5 and 6). If you want to read those chapters first, that is reasonable, maybe to apply those principles to your life immediately. But if you want to know who controls future prosperity, perhaps it will be profitable to read Chapters Three and Four which document who controls future prosperity for both nations and individuals like yourself. Spoiler alert! It is not the President of the United States or even the Chairman of the Federal Reserve.

Is inequality getting better or worse? You may find the discussion of that issue in Chapter Seven ironic and paradoxical. You will probably also find that Chapter Eight raises issues you may not have considered in the past but that are critical to your future. And please don't read Chapter Nine until you have fully considered all the earlier chapters. Finally, when you arrive at the concluding chapter, the content of this book is summarized in Ten Rules that helped me survive and sometimes thrive in a life spanning many decades. They are not presented as suggested rules for you but perhaps as motivation to write down your own rules for the rest of *your* life.

After forty previous books, there was only one good reason for me to write another – to help you understand your own prosperity and typical income as well as wealth of people living in the nation. While this book is based on empirical research – the kind that helps people receive promotions as a professor and accumulate enough wealth to donate my career salary back to the university where I taught for forty years – it is also based on practical lessons growing up in the Missouri Ozarks, learning the only people who do not work on a farm are those who do not want to eat.

When I was in high school, at age 16, I began working at a local radio station as a janitor and progressed to higher positions, working full time while attending Northwest Missouri State before transferring to Missouri University to receive my bachelor's and master's degrees and a Ph.D. from Northwestern University, all without financing from parents or accumulating debt myself. You can read more details in the concluding chapter of this book, but from life and parents, I learned you do not have to have money to obtain a quality education. Where there is a will, there is a way for poor people to achieve a good education. This book describes how.

While reading this book, you will observe something different than most books: no footnotes. Some books include numerous citations at the bottom of pages, slowing reading substantially. To solve this problem, reader-oriented authors began putting citations at the end of chapters or the end of the book. Even with this improvement, printed citations were sometimes out of date or limited in scope.

When reporting national data, we generally reference the year 2019 rather than covid years of 2020 and 2021. Variations in managing the pandemic and collecting data vary so greatly between nations that reporting 2019 data provides more reliable comparisons than later years. Of course, you can always place different years in your browser to examine other years.

I have taken a behavioral approach, omitting footnotes in this book. If there is a term such as a demand curve or an author such as Daniel Kahneman about which you would like to learn more, you are encouraged to use your favorite search engine to get a recent explanation with as much detail as you prefer.

At The Ohio State University, I had the incredible learning experience of teaching over 65,000 students, mainly in the business school but also courses in Thanatology and Health Care Economics for the Medical School. I was also a member of the Black Studies faculty for a few years, reflecting a life-long interest in cross-cultural research, civil and human rights, and upward mobility among under-served minority groups.

My primary research area was behavioral aspects of marketing, co-authoring *Consumer Behavior*, a text translated into Russian, Portuguese, Spanish, French, Korean, and other languages used in universities and organizations in many countries. The success of that and other texts was the catalyst for being invited to teach and do research in 39 countries on six continents, learning from personal observation what makes some people poor and some prosperous.

After retiring from Ohio State, my understanding of poverty and prosperity was enriched further while teaching General Educational Development (GED) classes for almost six years to inmates at the Federal Correctional Institution in Morgantown, West Virginia. There is nothing quite as educational about how people escape (or do not escape) from project housing in the hood and other dysfunctional backgrounds as the daily teaching of former drug dealers. The GED students were often members of gangs, cartels, and other diverse occupations (including a former Mafia hitman) studying economics, math, government, grammar, and literature. In prison, when you teach math, explaining

the metric conversion of grams to ounces, it is not unusual to be asked, “Is that with or without the bag?”

I taught students in prison how to obtain a GED and, when they left prison, how to get a job, but the GED students in prison taught me even more about the realities of poverty, crime, and injustice. Nelson Mandela was correct when he said no one understands a nation as well as people who spend time in its prisons. You can read additional details of my life, in both prosperity and prison, in *You Are Not Alone and Other Lessons a Teacher Learned from Parents, Professors, and 65,000 Students*.

While writing this book, I asked Dr. Roger Bailey for advice and help. His insights as a marketing professor at Ohio State and his strong background in Economics and Quantitative Methods were invaluable to improving and extending many areas of the book. I asked him to join me as co-author, which he graciously accepted. We might not agree on every detail in the book, but hopefully his addition will make it more useful to you.

Roger Blackwell, Ph.D.

Columbus, Ohio

July 2022



Additional Comments by Roger Bailey

First, I want to reiterate that this book is the brainchild of Dr. Blackwell, and I was very happy to join him and contribute my ideas and perspectives along the way. It is our sincere belief that every reader will take away something useful from the concepts and examples presented in the following chapters.

To point out another perspective that complements Dr. Blackwell's, I'll return to his comment about economics being called "the dismal science." This term for economics was coined in the 1800s by Thomas Carlyle. One view of economics at that time, proposed by Thomas R. Malthus, was that food would always be scarce and that poverty and hardship were unavoidable. Subsequently, many concluded that the "dismal science" phrase described the bleak outlook of economics for humanity.

This general view is consistent with many people's views of economics, business, and prosperity today. Most humans care about the well-being of other humans. It is easy to see the vast differences in wealth and prosperity across the globe and conclude that financial success requires a person (or a nation) to treat others poorly. In other words, prosperity appears to come from ill-gotten wealth. If this is your view of the world, this book will challenge that perspective.

The reality is that becoming more prosperous does not require you to mistreat others. Moreover, being a compassionate person does not require you to forgo successful strategies and sound business practices to improve the prosperity of you and your country. However, improving prosperity does require careful thought, planning, and methodical consistency toward your goals.

This book presents the view that economics, specifically behavioral economics, can be combined with an objective view of a situation to identify solutions for improving prosperity. The views in this book are consistent with fairness,

empathy, and a desire to confront the problems in the world. On the other hand, this book will also objectively present the traits and characteristics of both individuals and nations that have consistently led to prosperous outcomes in the past.

Going back to Thomas Carlyle's view of economics, a brief investigation of his history reveals that he was anti-Semitic, racist, and had contempt for the notion of equal rights. Also, note that some of the first abolitionists in history were economists. In the 1770s, Adam Smith used economic theory to present a strong argument against slavery. Given Carlyle's pro-slavery views, it is widely believed that Thomas Carlyle's labeling of economics as "dismal" was a way to discredit a field that confronted his own bigoted beliefs. We hope you will agree that there is nothing dismal about the recommendations of this book!

In closing, the goal of this book is for you to come away with a "solutionist" perspective. Regardless of your political persuasion or your current financial situation, this book will provide you with tools for improving your own situation as well as for evaluating solutions and policies to improve the prosperity of your nation. After all, as you will see in the coming pages, your success can very much depend on the prosperity of those around you!

Roger Bailey, Ph.D.

Clinical Assistant Professor
Fisher College of Business
The Ohio State University

July 2022



Contents

What Your Colleagues Are Saying About Objective Prosperity.....	iii
Foreword.....	v
Preface.....	vii
Additional Comments by Roger Bailey.....	xi
Contents	xiii
Introduction.....	1
Chapter 1 Essential Topics of Economics	3
What is the “Economy”?	8
Who Gets How Much?.....	11
Discussion Questions	19
Chapter 2 Behavioral Economics: Something Old, Something New	21
The Original Economists.....	24
Something Borrowed.....	26
Something New: Behavioral Economics.....	30
Daniel Kahneman.....	31
Chapter 3 Who Controls the Economy?	37
Time and Money Budgets	40
Discussion Questions	49
Chapter 4 How People Buy Goods and Services.....	51
Why People Buy.....	55

It's Not the Product – It's the Benefit.....	64
The Road Map.....	65
Discussion Questions	68
Chapter 5 National Prosperity: Lessons from History	69
An Ancient Example	71
Economic Prosperity and Global Dominance	75
Rise of Nation States	78
The Sun Never Sets	79
Creating a Culture of Prosperity.....	83
Discussion Questions	88
Chapter 6 How to Be Prosperous Instead of Poor	89
It's a Marshmallow World.....	92
Behavioral Antidotes to Racism.....	94
Recognizing the Problem	99
Historical Examples of Anti-Racism.....	103
Does It Take Money to Make Money?.....	107
Personal and National Prosperity	112
The Problem of Homelessness	113
Income and Wealth Are Different.....	116
How to Be an Einstein at Investing.....	117
Avoiding the Opposite of Wealth: Live Debt-Free.....	119
Discussion Questions	121
Chapter 7 The Ironic Inequality Paradox.....	123
Inequality: For Better or Worse?.....	124
Questions About Piketty's Analysis.....	125
Capital Versus Value Creation.....	129
Poverty Versus Mobility	132
Education: Key Attribute of Human Capital.....	133

What is Happening to the Middle Class?	136
Generating High-Income Jobs.....	138
Learning from Billionaires	139
Discussion Questions	143
Chapter 8 Unintended Consequences of Well-Intentioned Policies	145
Lessons From Finance.....	146
Even Great Ideas Have Consequences	148
Is Anyone Anti-Antibiotics?	151
Free College Tuition.....	152
Forgiving Student Debt	154
Wealth Taxes.....	157
Legalizing Marijuana and CBD	160
Immigration Policies	163
Mandatory Minimum Wage	167
Financial Transaction Taxes (FTT).....	175
Medicare for All	176
Just the Facts!	181
Discussion Questions	182
Chapter 9 Collectivism or Individualism: Which is Best?.....	183
Examples at the Extremes	184
Nordic Socialism.....	186
Rise and Fall of Collectivism	192
Russian Collectivism.....	192
The China Evolution	199
Emerging Market-Driven Nations.....	202
Collectivist Corruption.....	205
The Merits of Meritocracy	207
Evaluate a Policy on the Spectrum.....	211

Discussion Questions	212
Chapter 10 Your Personal Path to Prosperity	213
The Value of Values.....	220
Your Personal Values for Prosperity.....	223
Instrumental Values for Life	226
Discussion Questions	227
Roger’s Rules for Success	229
Index	231
Other Books By Roger D. Blackwell.....	247
Acknowledgments.....	248
Credits	250
About Rothstein Publishing	251
About the Authors.....	252

EXCERPT



Introduction

Regardless of how you earn a living, you have likely taken time during the pandemic to take stock of where you are and where you want to be in the future. These evaluations inevitably lead to the question: “How do I get there?” The answers may seem hard to find at times, and for a good reason. Every person comes from a different background, with different skillsets, constraints, weaknesses, and strengths. Identifying ways to increase your prosperity is made even more challenging by the reality that the success of your nation’s economy can have a dramatic effect on your own success. Politicians, prickly pundits, and pompous TV personalities will promise answers for you and your nation, but consider this: Are there really one-size-fits-all answers to improve prosperity?

To be clear, this is *not* a book of simple answers to all of the world’s problems. There are certainly enough “expert opinions” on the planet to go around. Instead, this book provides a method for you to arrive at your own answers not driven by upcoming elections and TV ratings. Throughout the text, there will be a number of explanations, recommendations, and examples to identify solutions to improve your own prosperity and to evaluate the policies that seek to improve the economy around you.

If you want to get the most out of this book, consider a few ground rules. First, try to approach the examples with as little bias as possible. Consider that this is far easier said than done. Biases, positive or negative, are learned predispositions to the environment around us. Just like every person has different strengths and weaknesses, every person also comes with different biases. Strong beliefs about the way things should be should not stop you from being able to evaluate a situation thoroughly and carefully. This book provides a behavioral-economics-

based (data-based) view of prosperity that avoids the pitfalls of using preformed opinions and subsequent biases. In short, drop the dogma and dig into the data!

Second, this book will walk you through the opinions of multiple sources. Evaluation of the authoritative opinions of others allows you access to valuable information you may not otherwise consider. However, like every person, these sources will frequently have a slant to them (politically or otherwise), and yes, some may even include false or misinterpreted information! To help maintain objectivity, you should consider sources from different perspectives, not just those you are most comfortable with. The frequent quotes and references in the text provide further resources, but also highlight the importance of evaluating expert opinions in drawing conclusions for yourself.

In addition to the above, each chapter includes a few “Keys to Prosperity.” These examples, quotes, and discussions are provided as practical insights from the authors. Consider these a base point to work from as you evaluate your own situation, the situation of those around you, the current state of your nation’s economy, and how you might take action to improve your prosperity in light of these things!



Chapter 8

Unintended Consequences of Well-Intentioned Policies

For any person, life is full of decisions. Often these decisions are made to solve a problem or to seek out increased happiness and prosperity. The policy decisions of a nation are typically well-motivated to achieve the same purposes. Consider the last “big decision” you made in your life and consider the following question:

Were there consequences from that decision that you did not anticipate?

Whether big or small, most decisions come with consequences that were not anticipated. These consequences could be positive or negative but should always be considered when making a decision. Objective application of behavioral economics can often help in identifying unintended and unwanted consequences before they become reality. Considering unintended positive consequences is also an important part of the cost-benefit analysis of an action or policy. As you read through the examples in this chapter, perhaps you can identify additional positive or negative unintended consequences with respect to the provided examples.

Behavioral economics, at its core, seeks to describe what happens in the real world when the simplifying assumptions from traditional economic theory fail to

describe what is observed. Behavioral economics is therefore a primary tool in objective analysis of prosperity, as the goal is to go beyond simple “established principles” to understand the practical causes and effects of economic *behavior*.

One reason that behavioral economics sometimes provides different predictions and solutions than traditional economic models is because humans are quite different. These differences are not only among humans, but across contexts. In short, people make different judgements based on personality and cognitive style, idiosyncratic variations in the weighting of variables, and factors that may even change how the same person responds in seemingly identical situations.

Among researchers accustomed to designing and interpreting research, this is often referred to as “noise” in results. Fundamental causes of noise and ways to deal with the problem is the central theme of the latest book by Behavioral Economics pioneers Daniel Kahneman, Olivier Sibony and Cass R. Sunstein, *Noise: A Flaw in Human Judgment*.

As you read this chapter, it may remind you of some television ads for pharmaceutical companies who present a narrative about the benefits their products offer for skin problems, cholesterol, depression, or a myriad of other maladies. In the latter part of their ad, they also present the possible side effects or unintended consequences of their products. Those warnings are included because the Federal Trade Commission (FTC) requires companies do that. Sometimes the side effects are very discouraging.

The same process happens with social policies advocated by well-intentioned individuals, but the FTC does not require warnings about the side effects of social and political policies. Objective analysis of how people respond to different situations allows careful consideration of consequences that may be unintended. In other words, people may respond in unintended ways, but this is often predictable. Discussing the “noise” of unintended consequences does not mean the policy should not be adopted, but it does highlight the need for thoughtful consideration of potentially bad outcomes and how to prevent them.

Lessons From Finance

As an example of insights from behavioral finance, consider the value of a share in a public company. Behavioral insights are sometimes different than conventional analyses of share value. In an established public corporation, share value has traditionally been expected to be 15 to 17 times its earnings per share (EPS), commonly reported as Price to Earnings (PE) ratio. That typical PE ratio

has built-in assumptions of a reliable record of dividends and modest but not high growth expectations for the future.

Experienced investors call that the intrinsic value of a stock. The actual price in the marketplace is often different, explained by behavioral variables more than financial results alone. If enough people believe growth will be higher than normal, the PE will be higher than normal, sometimes much higher based on psychological beliefs in the marketplace.

One extreme example of the difference between traditional finance and behavioral finance can be observed in the stock of Zoom (ZM) at the beginning of the Coronavirus pandemic. In the latter part of 2019, the stock was selling for \$60, even though its earnings were only .08 per share, reflecting an extraordinarily high PE even then. Only a few months after the effects of stay-at-home orders from the 2020 pandemic, the stock “zoomed” even higher to nearly \$500, with a PE measured in the thousands instead of the typical ratios for high-growth stocks. The explanation is not based on historical financial numbers but psychological expectations of future performance.

Stocks with high PE ratios are called growth or momentum stocks although normally they do not typically reach ratios as high as Zoom. If you are psychologically an extreme risk-taker, you might buy such stocks hoping to ride the momentum and jump out before a reversal. However, if you are a Warren Buffet-type of investor you look for stocks that are selling below their intrinsic value (usually with normal or low PE ratios) and buy them for the long-term growth and dividends – what Buffet calls “forever stocks.”

When you study the stock market realistically, through the lens of behavioral finance, you soon realize that the price of a stock is a combination of both economic and behavioral (psychological) factors. You have probably heard the advice of Warren Buffet, “When the market is greedy, be fearful. When the market is fearful, be greedy.” It is a strategy that works well for Buffet and others who heed his advice.

The intrinsic value of a stock is based on its past and projected earnings but the actual or market price is sometimes determined by unintended consequences, behavioral in nature. When something unpredicted happens, stocks with very high PE ratios often plummet. Even well-thought-out and well-intentioned strategies can be upended by an unanticipated event, sometimes called a black swan event. Hence, it is even more important to carefully consider possible unintended consequences of a strategy.

The same caution that may help you prosper in the stock market applies to many other areas of life. When you hear someone expressing an opinion about a well-intentioned social policy, the cautious approach is to say the same thing attributed to the laconic Sgt. Friday on *Dragnet*, “Just the facts.” When people offer opinions about why you should vote for someone in favor of a well-intentioned policy, do not let the conversation end without asking, “And what might be unintended consequences of that policy?” Because, for every good idea, there will be unintended consequences. Sometimes, it is called the Law of Unintended Consequences.

Even Great Ideas Have Consequences

Think about the Interstate Highway System, possibly one of the best ventures the government has ever undertaken. It cost \$billions, was well-motivated, and one of the most beneficial infrastructure projects the government has accomplished. The list of the positives for the interstate highway system is certainly long, and while it is hard to know the entire list of intended consequences, it is unlikely that the Eisenhower administration considered the benefits of this system on the ease of interstate travel using self-driving cars in the future. Regardless, an eye toward the future would certainly have provided additional support for the construction of interstate highways.

It seemed a promising idea to build Interstate highways through the middle of major cities so that downtowns would not lose the business from the previous patchwork of local highways. One (possibly unintended) consequence often was to divide cities in ways that segregated cities by race and income. This happened in many cities including Columbus, Ohio with the consequence of segregating predominantly African-American areas from the prosperous downtown area.

Keys to Prosperity



How Can a Highway Be Racist?

While at first glance it may seem silly to some to believe that the placement of highways was racist,

closer inspection reveals this is almost certainly the case. The National Highway Act was passed in 1956 during the time in which the United States was reforming away from segregated schools but also while Jim Crow Laws were still in effect. During this racially charged period, many individuals with overtly racist views were still in leadership positions around the country. Moreover, a simple consideration of behavior would suggest that these individuals would be highly motivated to use their power to continue the segregation of communities via placement of the highways within their communities.

Even if the placement of the highways was not deliberately done to segregate and/or harm minorities, the placement of the highways most certainly had this effect. Government officials sought lower valued properties, which due to segregation, red lining, and other racist policies, disproportionately affected minority communities. Other leaders even saw the placement of public works as a solution to “fixing” neighborhoods they deemed as undesirable. For example, John Moses, who oversaw public works in New York City during this time, mentioned in a 1956 speech “Our categorical imperative is action to clear the slums.” Regardless of how the decision was made, the placement of the highway system tended to destroy and encircle minority communities.

This highlights an important point about diversity in leadership. When decisions are made it is possible that the unintended adverse effects of some actions may not be fully understood by everyone in the room. This explains why diversity is so critical, as the

inclusion of different perspectives and experiences can prevent managers and firms from making such mistakes. History has shown that the most successful business leaders are those that can understand how their coworkers and customers will be affected by their decisions. Therefore, improving the diversity of leadership in an organization is not just a matter of principle, it is directly tied to your own ability to maximize prosperity in your decisions.

If the unintended consequences were considered in the formation of the interstate system, the interstate highways could have been placed in locations that did not divide downtowns by income and racial patterns. A different location of the freeways might also have removed affluent citizens' ability to avoid passing through impoverished areas of the city without closely observing them. Considering the unintended consequence might even have created alternative arterial streets that could have avoided stalled traffic on interstates during peak commuting hours, an unintended consequence observable in many cities. The reason for asking proponents of a policy about unintended consequences is because they almost ALWAYS happen.

For every difficult problem, there is usually a simple solution – and it is usually a bad one. Complex problems typically require complex solutions, but you will rarely see complex solutions offered by political pundits and TV personalities. An objective approach to identifying solutions requires consideration of human behavior, and behavior is complex. Therefore, considering the unintended and potentially harmful side effects of social policies is as important for social policies as it is for the FDA when approving new medicines and carefully considering potential negative side effects.

Considering the unintended side effects might lead to avoiding them. Solutions to important social issues need facts not only about the desired outcomes, but facts about and analysis of the unintended consequences. When consumers decide who to vote for, rather than listening only to opinions of one political party or another, improved results are more likely to occur from listening to data – carefully analyzed evidence about behavioral issues. When evaluating social policies, regardless of how well-intentioned the motives, informed voters should always insist, “Show Me the Data!”

In the book *The Logic of Social Inquiry*, Professor Scott Greer shows how to analyze these problems, advocating policy decisions be made *on facts and logic rather than desires and opinions*. When evaluating social policies, Professor Greer explains, decisions should be based on *value-free analysis of empirically derived evidence*. Using those criteria, in the following pages you will see some of the questions that might be raised about unintended consequences of topics affecting many areas of economic and daily life.

Is Anyone Anti-Antibiotics?

The widespread use of antibiotics has led to an example of unintended consequences called superbugs. In 1900, pneumonia and related diseases were the number one cause of death. When Penicillin was introduced in 1928, it was called a miracle drug. Antibiotics were so effective against these bacterial infections that today, these same diseases are barely among the top 10 causes of death. It is hard to argue that antibiotics are anything but a marvel of medicine.

With that said, the behavioral consequences of antibiotics were fairly predictable. Since antibiotics can quickly clear up a bacterial infection, and human beings do not enjoy being ill, the demand for antibiotics from sick people has grown rapidly. This includes people pressuring doctors to prescribe antibiotics whenever they had a cold. Some people want antibiotics before dental cleanings. Antibiotics are also given to livestock to prevent disease and to promote growth. The resulting unintended consequence of the predictable overuse of antibiotics was the eventual adaptation and spread of some strains of bacteria highly resistant to most types of antibiotics.

Each year these drug-resistant superbugs infect more than 2 million people nationwide and kill at least 23,000, according to the CDC. Drug-resistant forms of tuberculosis, gonorrhea, and staph infections are just a few of the dangers now faced as the unintended consequence of one of the most common drugs on the planet. Britain's Health Secretary, Matt Hancock, recently stated that these superbugs are as big an existential threat to humankind as global warming and warfare.

Naturally, it would be foolish to say that antibiotics should not have been introduced. The benefits of antibiotics are critically important. However, the overuse of antibiotics and the subsequent growth of resistant bacteria was a predictable outcome. These dangerous superbugs may have been avoided if the

potential unintended consequences had been considered during their widespread adoption, accompanied with education and research to prevent overuse.

Free College Tuition

Consider the importance of education in identifying a path to prosperity, and the statement: “Free tuition for college students is a great idea. I would vote for that.” Research on advertising effectiveness found the single most effective word attracting attention to ads is the word “free.” Whether selling cars, computers, or clothing, no word sells a wide range of products as effectively as an offer of something for “free.” Apparently, campaign managers for politicians are aware of that advertising research.

The motivation for free tuition is admirable. As discussed earlier in this book, the benefits of education and the subsequent valuable skillsets received can be a great strategy for moving from poor to prosperous. Most would agree with the importance of college education, even when people question how to pay for it, and free tuition would certainly remove a significant impediment that some people face when considering college. However, any debate about its merits should also raise issues about potential unintended negative consequences, such as effects on existing colleges and universities.

Increased pressure to attend the most prestigious public institutions would make those universities so competitive that students from high schools with lower abilities to prepare students for college would probably lose out in the admission race at highly competitive universities.

Free tuition to public universities may be welcomed by the parents of middle and upper-income families but could generate the unintended consequence of making it more difficult for students from high schools in lower-income districts to gain admission, probably not the social policy desired by people concerned with the inequality you read about in the last chapter. Moreover, parents with higher incomes can always pay for additional training programs and test preparation that could further stack the deck against lower-income students.

What effect would free tuition at public universities have on private colleges and universities? Given the choice of paying \$40-50,000 (or more) at private colleges across America, or free tuition at hundreds of state universities, what would be the choices of millions of future college consumers? Well-endowed, prestigious institutions might not be affected much but for the rest, a new chapter would be

written. For many private colleges and universities, that chapter would be Chapter 11.

Studies at Harvard Business School report about half of small, poorly endowed liberal arts colleges are struggling for survival now. If free tuition is enacted as public policy, say “Goodbye” to most of the smaller private schools, and with them, students could say goodbye to the myriad choices in specialty, location, and experience offered by those institutions. “It was not our intention to eliminate private colleges,” might be the response of those who advocate free tuition, but likely would be the unintended consequence.

A behavioral element to consider would be student motivation and incentives. As it stands, students that are paying for college have a strong incentive to consider what skills they gain from their degree and how they might create value in the future. While free college education may open more opportunities for students to invest time in studies of other subjects, the reality is that valuable skills are what drive prosperity. If students are not incentivized to seek valuable skills, the resulting education is unlikely to provide a path to prosperity even if it is free.

Another potential behavioral result is that students who pay for college have incentives to work through challenges and finish their degrees to earn higher wages. However, when the students incur no cost to attending college, they lose little or nothing if they walk away. This could have disastrous results for retention and efficiency for college education, as it could lead to a significant drop in the percentage of students that finish their degree.

Perhaps an alternative social policy would be free tuition at all schools, not just public institutions. The unintended behavioral result then would be to shift many students from public to more expensive private institutions. This would further compound the problems detailed above, eliminating the incentive and critical need that currently exists for efficiency and productivity in higher education, not to mention the extreme increase in the cost of such a policy. Probably not the intended consequence of these well-intentioned policies.

Given these considerations, you might expect to see high enrollment rates in countries offering tuition-free college, such as Denmark, Sweden, and Norway. However, the rate at which people obtain higher education is lower in Denmark and Sweden than it is in the United States. A major reason for this lack of college enrollment is the low return on investment from university education. Based on recent numbers, students in America can expect a 65 percent increase in earnings after obtaining post-secondary education

In Denmark, Norway, and Sweden, this earnings boost is much lower. In Denmark, workers with a vocational, educational training degree (VET) earn about \$70,798 USD on average a year according to Statistica, compared to \$82,620 with a bachelor's degree. Workers with graduate degrees earn more, with a Ph.D. averaging \$113,976. Even with free tuition, the costs of living, fees and other expenses are so high that 70 percent of Swedish students still take out loans to attend a university.

From a behavioral perspective, it makes sense that prospective students would be less inclined to pursue a university education if the benefits are significantly reduced. More importantly, application of economic theory predicts that as the number of college degrees grows rapidly, the salary expectations for a college degree are likely to decline (supply and demand). While this decline would then tend to bring balance by decreasing the number of students pursuing a degree, the decline in the value of a college education is an unintended consequence evident in other countries that have enacted such policies.

As you saw in earlier chapters of this book, there are alternatives to paying high tuitions at expensive universities where students can acquire valuable skills that can lead to prosperity. Free tuition might also be a disincentive to gaining work experience that adds to both knowledge and employability of students. Moreover, it may draw people away from trades and other high-valued skill development. This is not to say that solutions could not be implemented to assist students in acquiring an education, but the takeaway here is that reasonable solutions must include a comprehensive discussion of how the unintended consequences will be managed. Clearly, there must be far more to such a policy than simply “free” education.

Forgiving Student Debt

An accumulation of high student debt is a similar problem facing many graduates of undergraduate as well as graduate, professional and specialized schools. The solution suggested by many is for lenders to forgive debts incurred by students. There is considerable appeal to such a well-motivated policy, at least among those who incurred great debt.

The unanswered question is who pays the lender the forgiven amounts of debt? If the debt is government based, there would be support from some to let the government pay the debt, but this means that the debt is covered by the citizens of the country. In other words, those that learned a trade, incurred the risks of

starting their own businesses, or worked through college to avoid incurring debt will be responsible for paying off the loans of those who incurred large debts.

According to the National Center for Education Statistics, during the 2019-2020 school year the reported total for tuition, fees, room and board at private non-profit four-year schools was an average of \$45,570. At Harvard University, tuition costs \$47,730, fees are \$4,195, and room and board costs \$17,682 for total billed costs of \$69,607 before any aid students might receive. In either choice, or the many schools in between, a student can incur substantial debt.

If a student chooses a community college, the reported tuition at public two-year schools is an average of \$3,377 and it is more likely the student lives with a family member at much lower costs than students attending expensive universities. Students can then transfer to four-year universities to finish their degrees at significant savings. Is it socially responsible to provide debt forgiveness to students who attend high-priced schools by asking those that attended no school or that worked while at low-price schools to pay for it? It is hard to imagine that a policy designed to improve equity is intended to have this result.

Pointing out these negative outcomes is not to suggest that nothing should be done about student debt. Rather, when unintended consequences for programs such as debt forgiveness are carefully analyzed at the inception of a social policy, the process might shape how social programs could be more effective. Students with excessive amounts of debt could receive partial forgiveness each year they serve in low-paying jobs in rural and urban areas with high concentrations of poverty. Graduates who receive M.D., D.O. or other health care provider degrees often leave school with large amounts of student debt. A debt forgiveness program could be formulated forgiving debt to recent graduates serving a specified number of years in underserved populations where it is difficult to attract qualified health care professionals, funded by taxing high income M.D.s, D.O.s and other providers in rich, urban areas.

Another possibility is to provide debt forgiveness or free tuition only for universities with tuitions below a low amount, perhaps \$5,000. Perhaps local community colleges could be subsidized even more to induce students with financial constraints to reduce the amount of debt they undertake. This would provide valuable assistance to potential students who could not otherwise afford a university education and provide substantial pressure on other universities to improve their value proposition to students. Such a policy could create incentives for increased productivity and innovation in all universities without bankrupting the majority of small private schools. An unintended consequence of increased

productivity, of course, might be to reduce the average salaries paid to professors, a policy unlikely to generate much support in the academic community!

The reason for considering unintended consequences of well-intentioned policies is to prevent problems that arise when social policies are implemented without considering all the likely behavioral side-effects. Considering unintended consequences at the beginning allows for circumspective solutions that decrease the probability of unforeseen problems.

Keys to Prosperity



Debt-free Education

Problems are catalysts for solutions, especially for leaders educated as engineers, a discipline focused on solving problems. When Dr. Kristina Johnson became President of The Ohio State University, she applied her discipline as a Stanford-educated Electrical Engineer along with her extensive business experience and a research record with 119 patents in her name to her new job as President. Her skills found a receptive environment in a land-grant university that produces more graduates from low-income families than all the top dozen highest ranked U.S. universities combined.

The result was a program described as “The Scarlet and Gray Advantage,” based on funding from multiple sources, including student-paid internships and work experiences, state and federal assistance, family resources, and strong support from alumni and donors, accompanied by cost reductions based on increased productivity of university resources.

“Let me be clear,” Dr. Johnson commented, “this is not free college, (and) not a free tuition program. There will still be an expected student and family contribution, but we will ask our participating students to contribute in ways that are not career derailing and are instead career enhancing. The goal is to allow any participating student graduating with a bachelor’s degree to do so without debt.” Participating students commit to taking advantage of work opportunities and a financial literacy program. Dr. Johnson added, “I hope the program will be a model for the rest of our colleges in the state of Ohio as well as nationally.”

President Johnson’s multi-faceted approach is an illuminating example of identifying solutions that consider (and offset) unintended consequences.

Wealth Taxes

As discussed in Chapter 3, the government is responsible for creating the environment that supports transactions between producers and consumers. Critical functions such as national defense and the protection of property rights require investment, and therefore, taxes are a necessary part of a strong economy. However, the debate about how to raise tax revenue includes many potential tax policies, all with varying consequences for the economy.

You probably remember from the last chapter that a wealth tax is one of the policies proposed by Thomas Piketty in *Capital in the Twenty-First Century*. Taxing billionaires and other rich families a proportion – perhaps 2 to 5% – of their wealth every year sounds reasonable to many and over a decade would eliminate most of the wealth of rich families, a consequence some voters also regard as desirable. This should not come as a surprise, especially given the many potential social programs that could be supported with such a tax. Perhaps a wealth tax could be used for government-paid universal day care for all children under age five. Who could object to such well-intentioned motivations?

Raising taxes on the rich might appear to be a reasonable motive to well-intentioned people especially if the money is used for good purposes, such as loan forgiveness for students, funding free tuition, or universal daycare provisions. The Laffer Curve, developed by Arthur Laffer who received both an MBA and Ph.D. from Stanford, causes some concern, however. It states that if tax rates are increased above an optimum level, then tax revenues may fall because higher tax rates discourage people from investing, working, creating jobs for other people, or paying their taxes. However, the shape of the curve is somewhat uncertain and should be augmented by analysis of how people behave in the real world.

The unintended consequences of a wealth tax could be numerous. Among those results would be the difficulty of valuing assets to be taxed, the creativity and investment stimulated to avoid such a tax, and the possible negative economic consequences, especially effects on people who do not possess highly-valued skills.

Beyond such concerns that arise from theory, there is the empirical question of why most European and other nations who tried a wealth tax have abandoned it. In 1990, there were 12 countries in Europe that had a wealth tax. Today there are only three. Analysts say it did not work for a lot of reasons. Among other things, it is costly to enforce. It pushed rich people out of the country, and the wealth taxes did not raise as much revenue as expected. Furthermore, it discourages investment from other nations. When wealth goes away, empirical evidence indicates, so do jobs and prosperity for both high- and low-skilled workers. The reasons why this occurs were discussed in previous chapters.

Valuation of assets would be easy IF the rich kept most of their wealth in bank accounts, stocks and other easily measured (and tracked) financial instruments. But the wealthy often derive much of their wealth from privately-owned firms and LLCs whose value varies greatly from year to year depending on the economy and which family members manage. Such assets generate widely disparate opinions about their value (just ask divorce attorneys about disputed valuations), and include such oddities as family heirlooms, art collections and (non-income producing) personal property ranging from recreational retreats to designer clothing, rare wines, NFTs, and collectible cars.

Even the IRS has found that the actual value of assets is only about half what is reported in lists of the very wealthy reported by business media. Estimates of how much would be generated by a wealth tax are notoriously overestimated in the empirical experience of countries that have tried to implement a wealth tax. Advocates for wealth tax sometimes refer to the Nordic countries of Denmark

and Sweden, which both dropped their wealth taxes because of the problems they created.

The avoidance effects of a wealth tax are probably better estimated by behavioral economists than traditional economists. Misbehaving and “predictably irrational” people highly competent in accumulating wealth are also highly competent in restructuring their holdings and transferring them to areas of the world with no wealth tax. There is a reason very tall buildings full of financial firms and lawyers rise from the predominantly poor surroundings of Panama City, Panama, and other financial centers such as Gibraltar, Belize, and Cayman Islands. These places offer stability, regulation, and opportunity for confidentiality through limited liability and other instruments, to people and entities who appreciate the importance of privacy and anonymity.

People sometimes observe the difference between wealthy people and the rest of us is the wealthy have more money. Another conclusion might also be the wealthy have more creativity in tax avoidance. And sometimes, those methods are even legal.

In short, if a wealth tax encourages people to avoid taxes by moving their wealth to other places, who will create well-paying jobs for people who mow lawns, care for elders in retirement centers, paint houses, repair plumbing and HVAC, answer phones in call centers, serve customers in retail stores, pick and ship merchandise in warehouses, and create cuisine and serve it in restaurants? Who creates jobs for those people? Wealthy people who can afford to pay people for their valuable services as you read in earlier chapters.

Census Bureau data reveal that only about a third of adults in the US have college degrees, and even that is a massive increase since 1940 when the Census first asked respondents about their education levels. In 1940, just 4.6 percent had a four-year degree, and they were mostly male. Since 2014, the proportion of women with 4 years of college or more is higher (35%) than the proportion of males (34%). In recent years women earned 61% of associate degrees, 57% of bachelor’s degrees, 59% of master’s degrees, and 53% of doctorates, and the proportions for women are continuing to increase. The people with degrees, whether male or female, are the people most likely to create jobs for people without degrees.

Basic economic principles explain that people whose time has high monetary value often associated with advanced degrees employ service workers to save their time. Tax the wealthy more and expect fewer people able and willing to pay higher wages to people without degrees. That is probably not the intention

behind well-motivated high taxes on wealthy people, but it is likely to an unintended consequence.

It is certainly reasonable to consider the benefits of a wealth tax (and other similar solutions), but it is also important to understand the potentially harmful results if enacted without serious empirical and behavioral analysis of the unintended consequences of such policies. Once these consequences are studied, such policies might be implemented very differently.

Remember what happened to Rome when the government levied high taxes on the richest citizens? Historians report that the rich families left and took their wealth to other places, opening the gates to barbarians. Though the wealthy may not leave the country, their behavior will certainly change. Without objective analysis of the unintended consequences, you may be opening the door to barbarians unknown.

Legalizing Marijuana and CBD

Well-intentioned policies to legalize marijuana and CBD make it more available to consumers who like these products and may benefit from it for medical purposes. Additionally, states can collect taxes to pay for schools, addiction programs or other beneficial purposes, all good reasons for changes in social policies about the product.

But there are unintended consequences. Traffic fatalities increased in Colorado after the state legalized use of recreational marijuana, an analysis published in 2020 by *JAMA Internal Medicine* found. Since the state opted to legalize recreational use of the drug in 2014, there have been an additional 75 deaths resulting from traffic accidents, on average, annually, the researchers estimated.

“We observed that recreational cannabis laws were associated with increases in traffic fatalities in Colorado but not in Washington state, [perhaps due to] the size of the marijuana industry in Colorado, evidence of cannabis tourism in Colorado and other local aspects,” study co-author Julian Santaella-Tenorio told media. According to the author, things such as purchasing limits, sales taxes, ability to grow cannabis at home and density of retail stores could be among the difference-makers. Careful analysis and further study of these variables could potentially reduce the impact of these consequences.

In their analysis, Santaella-Tenorio and colleagues reviewed data on traffic fatalities in both Colorado and Oregon from the Fatality Analysis Reporting System. Their review covered a 12-year period from 2005 through 2017. “People

are concerned with the harmful unintended consequences [legalization] legislation may pose on communities,” Santaella-Tenorio said. “It is important to conduct policy evaluations studies that can shed light on these effects.”

Additionally, there may be other evidence to account for then just the number of marijuana related traffic deaths. There have been a great many studies to investigate whether marijuana is a gateway drug to harder drugs, but results of those studied vary greatly and have not proven it to be a gateway drug. Connections exist between marijuana use and later use of harder drugs, but these connections are not the same as causation (just because a person goes on to take harder drugs does not mean that marijuana necessarily caused it). With that said, progression to harder drugs is significant when other risk factors are present. Genetics, behavioral family history, and environment have a large impact.

You might find it surprising that studies by Dr. Marcus Bachhuber and other researchers found that opiate-related deaths decreased by approximately 33 percent in 13 states in the following six years after medical marijuana was legalized. Thus, it is not clear if legalized marijuana increases the total number of deaths per year.

In studies by the National Institute of Health, published in *JAMA-Pediatrics*, hospital visits and Regional Poison Control Centers (RPCs), Colorado cases for pediatric marijuana ingestion also increased significantly after legalization and at a higher rate than the rest of the United States. The number of children’s hospital visits and RPC case rates for marijuana exposures increased between the 2 years prior to and the 2 years after legalization. Almost half of the patients seen in the children’s hospital in the 2 years after legalization had exposures from recreational marijuana, suggesting that legalization affects the incidence of exposures. Other studies in the pediatric medical literature report similar results. Certainly, this was an unintended – but predictable – consequence.

More intriguingly, would you expect legalization to lead to an increase or decrease in *illegal* sales of marijuana? Will law enforcement be more likely or less likely to enforce illegal usage laws when legal usage is common? California’s governor, Gavin Newsom, declared that illegal growth in California “is getting worse, not better” and redeployed a contingent of National Guard troops stationed on the border with Mexico to go after illegal cannabis farms instead, according to *NY Times* and other media.

It is possible to do research with consumers in areas where marijuana is legal and ask consumers, especially younger and lower-income consumers, where they buy their weed. The answer is often not in legal dispensaries. Why? Because the

price is often about a third on the street compared to legal dispensaries. Some people might ask, “How can illegal dealers afford to sell at much lower prices than the legal market?” The answer is basic economics. There are no sales taxes or income taxes in the illegal market, nor do these dealers face quality standards, overhead, and others costs that legitimate dealers must incur.

Naturally, there is an increasing amount of research on the medical effects, both good and bad, from marijuana and CBD programs. Other behavioral results are starting to come into focus, observable in traffic deaths, crime rates, addiction statistics and knowledge gained by studying supply chains of drug dealers. Any area considering social policies of legalization of marijuana and other previously illegal drugs should closely follow these developments and the potential unintended consequences that are reasonable to consider.

Keys to Prosperity



Effects of Prohibition

You may know someone who has experienced financial failure, mental problems or even death because of excessive use and addition to alcohol or other drugs. If the government prohibits the sale of such products, wouldn't that prevent human suffering and increase prosperity? That was the rationale for passage of the 18th Amendment to the U.S. Constitution. banning the manufacture, transportation, and sale of intoxicating liquors, ushering in a period in American history known as Prohibition.

It proved difficult to enforce and became associated with an increase in illegal production and sale of liquor (known as “bootlegging”), the proliferation of speakeasies (illegal drinking spots), and accompanying rise in gang violence and other

crimes which led to declining support for Prohibition, leading to its repeal in 1933.

The unintended consequence of Prohibition was the rise of criminal activity associated with bootlegging. The most notorious example was Chicago gangster Al Capone, who earned \$60 million annually from bootleg operations and speakeasies. As a result, the annual budget of the Bureau of Prohibition doubled during the decade as it fought back against bootlegging. Moreover, the Coast Guard's budget increased substantially as it attempted interdiction and enforcement, weakened by specialists in illegal alcohol production and corruption of public and law-enforcement officials. Economists who study the effects of Prohibition estimate total expenditures on alcohol grew from less than four million dollars in 1920 to almost forty-five million in 1930.

(Data excerpted from Mark Thornton, *The Economics of Prohibition*)

Immigration Policies

Should the U.S. encourage more immigration? Or less immigration? That is a subject reflecting citizen attitudes which can be investigated with tools from behavioral analysis. Surveys could be conducted among U.S. citizens to obtain opinions, but those surveys should probably be conducted from both immigrants and their descendants and descendants of non-immigrants. The latter category, however, would be a restricted number of original citizens found mostly on reservations owned by Native Americans or, in Canada, Original Nations and other indigenous peoples who lived in Canada thousands of years before Europeans arrived in either the U.S. or Canada. Most people in both the U.S. and Canada today are descendants of immigrants, both countries that prospered economically because of immigration.

The desires of immigrants who arrived during the past few hundred years might create a desire to limit immigration mostly to people with the same ethnic

characteristics and values as the existing population, a policy incorporated into the Immigration and Nationality Act of 1952 (The McCarran-Walter Act). That Act included a system of immigration preferences to the families of citizens already living in the United States, a policy still in use today.

President Truman was concerned about how decisions to maintain the national origins quota system would establish racially constructed quotas for some nations. He thought the new law was discriminatory and vetoed it, but the law had enough support in Congress to pass over his veto.

An unintended consequence of immigration restriction is lower growth in the nation's economy. For years, the most pressing problem of business firms in both the U.S. and Canada has been how to attract additional consumers. As you remember from Chapter 3, producers and consumers are responsible for about 70% of GDP. When population growth slows, so does economic growth. In addition to the search for new customers, firms in the U.S. now also increasingly face the problem of how to get additional workers to produce. Even prior to the 2020 pandemic, studies of Small and Medium (SMB) firms reported SMBs were turning down new business because they could not find enough qualified workers, a more fundamental problem than lack of new customers. Immigration could help solve both problems.

The size of a population is determined by three factors: birth rates, death rates (longevity) and net migration. Immigration is more volatile and responsive to political preferences, but birth rates and death rates are both easy to forecast and exceedingly difficult to change. That is why these demographics are sometimes compared to a huge ship or a glacier in the ocean – difficult to alter course quickly once they are headed in a direction.

The “replacement” fertility rate of 2.1 is required to renew the population, but by 2018, fertility declined to 1.72, a record low. It has continued to decline since then and in 2020, the number of people in the normal employee category (16-64) declined in absolute numbers for the first time in history, according to the U.S. Census Bureau. This number would be even lower without the births of Hispanic and Asian babies, now almost 25% and 7% of births, respectively.

All told, about 80% of counties in the U.S. are now declining in population because of the plummeting fertility rate, a reason economic growth is projected to be slower in the future than in the past. As you saw in Chapter 3, U.S. total population growth is now only 0.7% annually and even less, about 0.5%, for citizens under age 65. The fertility rate in Canada is even lower than the U.S. but Canada enacted policies to encourage immigration, giving it a higher total

population growth rate than the U.S., currently about 1.4% annually, the highest among G-7 countries.

The Economic Innovation Group advocates an immigration policy that would stop the cycle, proposing entry be made available to skilled immigrants on the condition they go to counties struggling with demographic decline. The idea would be to create growth in the working-age population in those places, increasing the tax base and the demand for housing, and giving businesses a reason to invest. Without such policies, the unintended consequence of limiting immigration is to put the U.S. economy on a path toward the same type of economic decline facing Japan, where a few young people must support many older people living longer and longer.

Remember the lessons you read about Singapore in Chapter 5? Singapore's values made the country rich, including immigration policies soundly rooted in attracting people with skills needed for the 21st Century. The result was growing the nation from 1 million in 1950 to 5,836,602 in 2020. Objective analysis shows that immigration is one of the reasons for its economic prosperity. Not all immigrants to Singapore became rich, of course, but enough to create substantial reality in the popular book and movie "Crazy Rich Asians."

People – traditionally called "labor" by economists – offer an explanation with far more insights than what traditional economists call "capital" as a reason for prosperity. Immigration allowed Singapore to become one of the most prosperous nations in the world, an important fact to consider when you hear people expressing views about immigration policies. When discussing social policies, ask for facts, and you may want to be ready to compare immigration policies in nations such as Canada, Switzerland, and Singapore, as well as Japan. Pundits and dinner guests alike are unlikely to have considered the unintended consequences of overly restrictive immigration policies.

You may wonder about the importance of thinking so much about demographics and policies such as immigration. You can't personally control immigration policies any more than what happens with interest rates or the stock market, but you can control the amount you save for retirement. Boosting your personal savings ratio may bring you closer toward your retirement savings objective considering demographics and future trends.

Keys to Prosperity

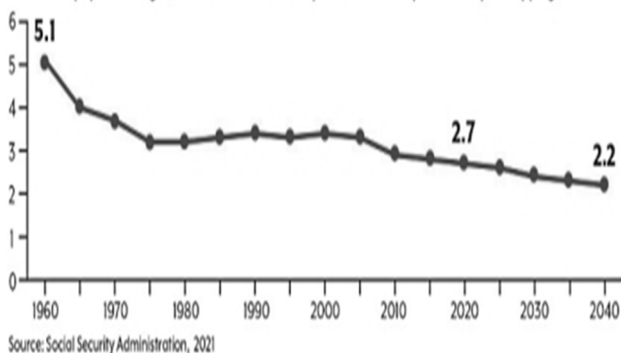


Demographics and You

Social Security is a pay-as-you-go system, which means today's workers are paying taxes for the benefits received by today's retirees. However, demographic trends such as lower birth rates, higher retirement rates, and longer life spans are causing long-run fiscal challenges. There are simply not enough workers to support the growing number of beneficiaries. Social Security is not in danger of collapsing, but the clock is ticking on the program's ability to pay full benefits.

Demographic Dilemma

As the U.S. population ages, the number of workers per Social Security beneficiary is dropping.



It is easy to postpone thinking about the future when you are young, but no matter what the future holds for Social Security, your retirement destiny is in your hands now. The key to future prosperity is to start saving when you are young, saving as much as possible for retirement while you are working.

Don't wait until you have one foot out the door to consider your retirement income strategy.

Mandatory Minimum Wage

Another controversial topic is that of the minimum wage. Poverty is a genuine problem even here in the United States. Research from a multitude of sources confirm that poverty, and especially child poverty, is decreased when the minimum wage is increased. That alone is a significant benefit to society. Raising the minimum wage could also lower the amount of government transfers needed to support those who currently rely on housing and food support to make ends meet, an additional (potentially significant) positive consequence.

The passing of time is a significant factor as well. Few people in the USA would complain that the current minimum wage of \$7.25 is too much. Many people might recall working for that much when they were starting their own first job, and subsequently believed this amount was fair compensation. However, the reality of inflation is important to consider and since the most recent minimum wage increase in 2009, prices in the United States have risen more than 30%. In other words, if \$7.25 was a reasonable minimum wage in 2009, then inflation alone suggests raising the minimum wage to compensate for the significant rise in prices over that period. A minimum wage increase could certainly be helpful for people working at rates below the new minimums, but as always it is important to understand the potential unintended consequences of a policy.

According to 2020 data from the U.S. Bureau of Labor Statistics, minimum wage workers are mostly young with the majority in the 16-19 age group (think McDonald's and Wendy's). Among workers over age 25, the data report 1.0% are at or below minimum wage. It should also be noted that estimates of workers paid at or below the federal minimum wage are based solely on the reported hourly wage, which does not include overtime pay, tips, or commissions.

For example, a quick investigation of McDonald's website shows that eligible crew have access to \$2,500/year as scholarship assistance. Eligible Managers at McDonald's have access to \$3,000/year. Participants have a choice for how they apply this funding – whether to a community college, four-year university, or trade school. Given the previous discussion of how impactful education can be in creating prosperity, this is a particularly valuable benefit to both workers and society if they choose to take advantage of it.

Also remember that “minimum wage” is more accurately described as “starting wage.” Some firms have 80 to 85 percent of their highest-paid executives having started at minimum wage a few decades earlier. Walmart’s CEO Doug McMillon is the poster child for employees who start at minimum wage but do not stay there. That’s not unusual at Walmart and many other successful firms. An excellent narrative of how Ron Loveless started as a stockboy at Walmart, born to a welfare-supported family in Hiwassee, Arkansas (population 98), rising through the ranks to become the innovative first president of Sam’s Club. You can read the insightful story in his book, *Walmart Inside Out*. It is also an excellent source to understand how corporate culture creates successful firms.

With that said, this raises the question of incentives. What happens to worker productivity when minimum wage is increased? Evaluation of the incentives and subsequent behavior yield somewhat of a mixed result. Naturally, a higher wage would induce people to want to keep their job, and subsequently could result in lower employee turnover and a reduction in training costs.

However, while a higher wage is certainly more attractive, for jobs without significant career advancement opportunities the incentive to work at the new wage is essentially the same – to work just hard enough to not get fired. This is not to say that no employees will work hard, but if you consider the people you have worked with throughout your career, you can likely think of some colleagues that displayed this “doing the bare minimum” behavior. In short, minimum wage increases can be used to increase productivity, but performance metrics that incentivize productive employees should be considered alongside wage increases if increased productivity is the goal.

As an extreme example, consider the Gravity Payments company in Seattle that increased the minimum salary for all employees to \$70,000 in 2015. Not only was the company able to increase the salary of many of its workers, the company rapidly increased both productivity and profitability shortly thereafter. As you might expect, this also increased employee retention. With that said, the major driver of this profit increase was the 55% increase in the number of clients that Gravity Payments served in 2015, ostensibly driven by the publicity of the policy. While Gravity Payments did hire extra workers, the firm did not need to increase its workforce by much given the increased productivity.

Gravity Payments had done well to motivate their employees. However, you must be careful to recognize the reality that Gravity Payments was a single firm in a unique situation. If the state of Washington had mandated such a change for all firms, there would have been no publicity and the subsequent growth would not have occurred to compensate for the significantly increased labor costs.

Moreover, the incentive to work harder to stay employed at Gravity Payments would be significantly reduced, given that every company in the state would then pay the same \$70,000 minimum salary.

An even more concerning consequence of minimum wage increases is that the incentives that do create significant reasons to work harder, the possibility of a promotion, are diminished when the base pay gets closer to the next highest level. Working hard for a \$1 per hour promotion/raise is simply not as attractive as working hard for a \$3 per hour promotion/raise. This can also create some anger in those that had previously “worked their way up.” Note that this very thing occurred when Gravity Payments increased their base salary, leading to several long-term employees making the same amount as new employees. The CEO of Gravity Payments later admitted the unfairness of the policy to long term workers, and not only offered them an apology, but gave them small raises to let them know that they too were appreciated.

The great irony of higher mandatory minimum wage laws is their effect on the most vulnerable of workers – the minimally educated, people with special needs challenges, and teens contributing to family income in single-parent households struggling with poverty. Mandatory minimum wage laws create pressure to replace such workers with faceless kiosks and robotic French fry cooks and burger flippers.

Note that multiple historic studies have claimed that employment does not always decrease after a minimum wage increase but drawing fair comparisons to show these results is extremely challenging given differences across time and location. Therefore, the validity of these studies can often be questioned. Moreover, many of these studies use older data that may not be relevant given that technology used to replace low-skilled workers has improved rapidly in recent years. Now more than ever, mandatory minimums above the prevailing rate nudge independent restaurants to replace younger, low-skilled employees with automation.

Keys to Prosperity



The Effects of Minimum Wage Increases

Economists have studied the effects of minimum wage increases for decades. One common question tends to be whether increased minimum wages lead to decreases in employment. As often happens, the conclusions have very mixed results, but this should not be surprising. To see this, consider the situation and the resulting behavioral realities.

Put simply, profit is revenue minus costs. When the minimum wage increases, costs for an individual low-skilled worker will increase. This means that some things in this equation must change. First, it is possible that revenue could be increased via a price increase to compensate for the increase in costs. Second, it is possible that the firm could hire fewer low-skilled workers (or give them fewer hours). Note that this requires an increase in the productivity of the remaining workers/work hours. Third, it is possible that the firm could simply accept the lower profitability. Consider that the reason economists throughout history have not been able to pinpoint which of these happens when wages are increased is because the answer is likely “all of the above” depending on the situation.

The outcome of a minimum wage increase will depend heavily on the firm, its location, its employees, and its customers. Firms with high margins and price-sensitive customers may choose to offset minimum wage increases through a combination of accepting lower margins,

decreasing the hours for low-skilled workers, or some combination of the two. Firms that have trouble keeping employees and have customers that are less price-sensitive may choose to simply increase their prices.

But firms with low margins and price-sensitive customers may have little choice but to decrease employment (or go out of business altogether). Even the famous paper by recent Nobel winners Alan Krueger and David Card showed an increase in prices after the minimum wage increase in question and mention the difficulties of how price changes can be impacted by the characteristics of the competitive environment.

Unfortunately, they fail to discuss how these same factors could affect their employment results. As mentioned above, there are significant econometric challenges in drawing valid conclusions from such data. A discussion by fellow Nobel economist John Angrist, in his book *Mostly Harmless Econometrics*, points out a serious methodological flaw in the Krueger and Card analysis that leaves the validity of their conclusions in doubt. Ironically, these three brilliant scholars all won the 2021 Nobel prize together!

Needless to say, firms do tend to find a way to deal with wage increases. A recent article in the Harvard Business Review by economists Qiuping Yu, Shawn Mankad, and Masha Shunko, highlights research showing creative ways that employers can offset losses due to a minimum wage increase. In short, workers are frequently harmed by subsequent changes in scheduling, benefits, and other factors. The authors go on to recommend more well-designed policies to accompany wage increases that could potentially prevent these unintended

consequences for workers. With that said, the cost of the increased minimum wage will be paid by someone, and it is unlikely to be only the firms.

Even the non-partisan U.S. Congressional Budget Office estimates that a \$15 mandatory minimum law would cause 1.3 million or more Americans to lose their jobs. But this comes with the caveat that this outcome is unlikely to be consistent across the country. A \$15 per hour minimum wage might not affect many people in New York City or San Francisco, but in rural America and small towns, it could potentially put a substantial number of firms out of business, often in areas already struggling economically (WSJ, August 12, 2019). Additionally, the firms pushed out of business would predominantly be SMBs. To see why, consider the average annual pay per employee for U.S. businesses relative to their size. According to U.S. Census Bureau data from 2019, the average pay was \$44,503 for small enterprises (<100 employees), while the average pay for large enterprises was \$63,847 (>5000 employees).

Though it needs to be noted that there are a significant number of exceptions, overall, small businesses tend to pay employees significantly less on average than large businesses. As a result, these small businesses are more likely to be affected by an increase in the minimum wage. In fact, a recent survey of small business owners by the National Bureau of Independent Businesses (NFIB), found that 74% of the surveyed small businesses said that they would be negatively impacted by a \$15 per hour minimum wage. Moreover, 89% of those firms said that they would experience less overall profit, 87% stated that they would increase prices, and 58% said that they would decrease the number of their employees.

Higher minimum wages can also prevent small, innovative firms from capturing market shares of large, established firms. There are many reasons that employees might choose to work for a small business that pays less, for example, better work culture, more flexibility, the possibility of growing with a small startup, and the ability to have a greater impact in the company. Regardless of the reason, small firms with lower wage burdens can diminish the dominance of complacent corporate giants by attacking them segment-by-segment. Ironically, the problem of monopolies was the same economic issue that distressed Joseph Schumpeter and his Austrian marginal-revolutionary friends discussing the issue late into the night in Vienna coffee shops more than a century ago. It is unlikely that those seeking to increase the minimum wage are intending to drive an increase in monopolies.

As mentioned in chapter 3, an important key for prosperity is the acquisition of valuable skills. Of course, this assumes that the wages for a particular skillset are determined by the value and availability of those skills in the labor market. Many firms have found it difficult to locate and hire individuals to fill open positions in the wake of Covid-19. As a result, wages for many positions, entry level or otherwise, should be on the rise. As expected, data from the US labor department shows that wages are indeed rising substantially. In other words, the labor market appears to be working. The resulting question is whether or not government intervention via a minimum wage increase would be a better approach than relying upon the market.

A higher national mandatory minimum wage has many benefits and is certainly worthy of consideration as a solution to poverty. However, complex problems typically require complex solutions. Consider the answer to the question: “What would be the unintended consequences for the nation’s most vulnerable workers and firms?” If wages are mandated above the market price, is that helpful to the most vulnerable workers whose salaries could go to zero dollars an hour instead of the expected higher rate? This is not to say that increases in the minimum wage are a bad idea, only that the resulting consequences must be considered in the development of such policy. For example, it is possible that any workers who lose their jobs could be assisted in finding new and more rewarding forms of employment, but this requires equal access to educational opportunity, a problem we have already discussed that also needs to be addressed!

Keys to Prosperity



The Rise of the Machines

A common argument against the minimum wage is that human labor will be replaced by machines. Of course, this would only benefit firms if the total cost of the automated “worker” is less than the total cost of the employee(s) it replaces. Naturally, there are differences from industry to industry, but there is historical evidence to believe this is a concern for some employees.

According to a recent study by Oxford Economics, nearly half of the unfilled US jobs in the post-covid recovery are in danger of replacement via automation. As these are jobs are primarily in food service, retail, and manufacturing, it is possible that a minimum wage increase would accelerate this replacement. However, there may be reasons to be concerned even if your current job pays more than minimum wage.

As mentioned above, post-covid wages are on the rise. While this might be good news to workers, the reality is that many jobs in coming decades will be under the same threat for similar reasons. In fact, McKinsey & Co recently forecasted that 45 million US jobs will be automated by 2030, a sobering number.

While there is some question as to how negatively this will impact the total number of US jobs, the reality is that sometime in the future it is likely the demand for US labor may decrease significantly. These forecasts are often used as justification for

considering a universal basic income (guaranteed income for all adults in the country).

So, what does this mean for you? If you are in the market for a career change, consider careers that create value in a way that is difficult to replace with a machine. If not, consider how you can increase the value you create for your employer both now and in the future. Finally, regardless of how you feel about a universal basic income now, you may want to consider how the nation will find solutions to a lack of available employment in the future. This may not be so far from now as you might imagine!

Financial Transaction Taxes (FTT)

Where can the U.S. find tax sources for all the programs desperately needed? Taxation of Wall Street is one solution proposed to pay for well-intentioned policies. A Financial Transfer Tax (FTT) on share transfers sounds good because many do not care if Wall Street pays more.

A proposed Financial Transaction Tax would apply to every transaction made in the United States or by a U.S. person, including retail investors. There could be various amounts such as one suggested by Senator Bernie Sanders at a rate of 0.5 percent on stocks, 0.1 percent on bonds, and .005 percent on derivatives. It might be assumed this would focus on the richest, although wealthy people tend to make investments with little volatility rather than frequent trades as day traders and hedge funds often do. This would also tax not just wealthy stock traders, but everyone with a 401(k) or college savings plan.

In a digital age it is easier for transactions to be moved to nations or cities with lower taxes. Some stock exchanges already have FTTs, but many do not, creating competition to historic U.S. dominance. The Chinese cities of Shanghai and Shenzhen are each home to stock exchanges with market caps rivalling Europe's major exchanges. Shanghai stock exchange is China's largest, doubling its market capitalization in the past few years. Most listed companies are large, state-owned companies responsible for China's economic growth. Most investors are pension funds and banks.

Currently, the U.S. is home to the most desirable stock exchange in the world, attracting investment from many countries. Taxes on transactions could have the unintended result of taking jobs from the U.S., moving them to the Chinese markets (including Hong Kong) as well as competitive markets in London, Tokyo, Singapore, and other cities.

The intention is to increase tax revenue, but which shareholders would be the ones paying the taxes? It is easy to think of the stock market as the playground of hedge funds and day-traders, but the reality is most of the stock market is owned by average people in their retirement accounts doing one thing – helping people retire. Seventy-two percent of the value of all domestically held stocks is owned by pension plans, 401(k)s and individual retirement accounts, or held by life insurance companies to fund annuities and death benefits.

What occupation owns the most shares of public companies? People might find teachers a surprising answer, but mutual funds are the primary assets of pension funds, and Teachers Insurance and Annuity Association of America (TIAA) is the largest. Does the average U.S. voter really want the unintended consequence of taxing teachers by reducing yields on TIAA, CALPERS, and state pension funds such as STRS and OPERS? Moreover, according to the Federal Reserve, 52% of households in the U.S. own stocks, and more NYSE individual shares are owned by women than men. Should a well-intentioned social policy be financed by taxing women more than men?

An additional challenge is that policymakers are split on the point of the tax. Is it to raise revenue from members of society or is it a “sin tax” on the finance sector for frequent trading? Voters may support the idea of FTT, but nations fear that imposing a levy on financial trades would push investors to move transactions to other countries, a fear that has stopped many governments from demanding a broad-ranging tax – or supporting it at all. Asian countries take pride in providing competitive tax frameworks for investors and are reducing, rather than expanding, their already modest FTTs. In South Korea, the securities transaction tax on stock trading is being phased out as the government seeks other sources of investment income tax and expands taxation on capital gains. This raises significant questions about the unintended consequences of FTT.

Medicare for All

There have been proposals calling for Medicare for All. A more realistic description of government-provided health care for everyone might be Medicaid

for All not covered by insurance or personal funds, but that label has less vote-getting appeal. In the U.S., Medicaid is administered by states, aided by the Federal government, as is health care in Canada, with each Province having its own system, aided by the federal government. In Ontario for example, health care is provided by OHIP but in British Columbia, health care is provided by British Columbia MSP. Like most industrialized nations, Canada now has a two-tier system of free government health care but a private system for people or employers who can afford it.

In the U.S., hospitals receive a reduced rate for Medicare treatment, but currently that applies only to a minority of their patients. With Medicare for all, those rates would apply for all. The unintended consequence could be to put many hospitals out of business, especially in rural areas unless appropriate policies are put in place. This could create even more shortages of health care for the masses of consumers and drive affluent consumers to a private solution as has happened in the two-tier health care systems found in other industrialized countries such as Canada, Britain, Sweden, Australia, and other nations.

Consider the NHS system in Britain to determine what happens to the incomes of health care providers (and eventually supply of providers) as well as availability and delay in access to the masses with the policy of Medicare for all. The data from other countries are readily available and useful in evaluating social policies such as Medicare for all. Government-paid health care in the nearby neighbor of the U.S is described by a Canadian researcher in the accompanying Prosperity Key.

Keys to Prosperity



Medicare for All?

Health care costs disrupt the prosperity of affected individuals and families, causing many to conclude it would be better to have health care costs paid by the government rather than employers or individuals. Many nations do that, and when U.S. citizens consider the issue, they sometimes cite programs of other nations, especially nearby neighbor Canada and Mother England.

When considering such policies, it is productive to examine facts about potential unintended consequences. Consider Canada, where 1.2 million Canadians are on waitlists for critical medical treatment. Patients face a median wait of 22.6 weeks for care from a specialist following referral by a general practitioner. Similar facts are observed in Great Britain's National Health Service. The *Guardian* reported the number of people waiting to start treatment in England recently was at an all-time peak of 5.8 million.

One U.K. man was recently told he would have to wait three years to have a decayed tooth removed. A couple in Northern Ireland learned that their 12-year-old son couldn't have urgent scoliosis surgery for more than two years. The total number of people waiting at any given time for treatment has climbed steadily since 2008. Severe wait times at the National Health Service have led many to turn to private providers, in some cases going abroad for treatment. In these cases, they pay for care out of pocket.

Examining OECD data from 2022, the U.S. was on the higher side for the share of people who sometimes, rarely, or never get an answer from their regular doctor on the same day at 28%. Canada had the highest at 33% and Switzerland had the lowest at 12%. The U.S. was towards the lower end for the share of people waiting one month or more for a specialist appointment at 27%. Canada and Norway tied for the highest at 61% each and Switzerland had the lowest at 23%.

The Fraser Institute, a Vancouver research group, issued a report calculating how much the average Canadian family pays in taxes each year for their publicly provided health care. The total comes to just over \$15,000 Canadian for a family of four (about \$12,000 USD). Long wait times also affect productivity. According to Fraser, the costs associated with waiting for treatment from a specialist in Canada are nearly \$3 billion per year. People in discomfort or pain tend to be less productive. That doesn't include wages lost while waiting ten-plus weeks for an appointment with a specialist or losses realized by family members who quit jobs to take care of loved ones waiting for care.

[Data excerpts from report by Sally C. Pipes, American Institute for Economic Research, December 9, 2021. Ms. Pipes is also author of *False Promise, False Promise: The Disastrous Reality of Medicare for All*, 2020.]

While the statistics and anecdotes in the key above report some comparisons between countries, the ultimate question for U.S. readers to consider is how these reports compare to their own experience with both primary care providers and specialists in their nation. One of the changing circumstances of the health care system in the U.S. in recent decades has been a difference in availability of primary and specialist care. Incentives for higher income have created an

increase in supply of specialists compared to primary care, causing adjustments to more care in urgent care centers and other alternative arrangements. Although it is difficult to measure differences in wait times across alternative health plans, consumer reports indicate the Canadian system has less access (and more wait time) for specialists than to primary care.

When care is free, objective analysis of the data reveals that demand soars, causing shortages. Some of this increase will be from people that couldn't previously afford healthcare, a definite positive, but some will also be from people who are simply overusing the system for ailments that do not require a physician. Regardless of the causes of the increased demand, the U.S. is already facing a shortage of surgeons, nurses, and other providers, reported in *The Coming Shortage of Surgeons: Why They Are Disappearing and What That Means for Our Health* by Thomas E. Williams Jr. M.D. Ph.D., E. Christopher Ellison M.D., et al. The immediate solution to the shortage has been to import an increasing number of U.S physicians and providers from other countries such as the Philippines, India, and low wage countries, causing provider supply problems for those countries. There are alternative approaches and operational methods to provide high quality care at lower prices such as the Narayana Hospital, described in the next chapter and which you can read about in Clayton Christensen's *Prosperity Paradox*.

The costs of healthcare (in any program) are a significant concern. Solutions as alternatives in Medicare for All include Consumer Driven Health Care (CDHC), the common approach in the U.S. for groceries, cars, and most other services. Switzerland and Singapore offer practical examples of how to make health care costs more affordable and effective than current U.S. health care systems, and more effective than England or Canada, via well-designed government mandates fulfilled by private insurance companies. You can read how Switzerland and Singapore provide health care that is both efficient and affordable in "Consumer-Driven Health Care: Lessons from Switzerland, in *JAMA* (vol 292, No 10) by Dr. Regina Herzlinger and Dr. Ramin Parsa-Parsi. They are also described in the book *Consumer Driven Health Care* by Roger Blackwell, Dr. Tom Williams, and Alan Ayers.

Regardless of the proposed solution to the healthcare problem in the United States, a "Just the facts" approach to Medicare for All discloses alternatives to address the unintended consequences of this well-intentioned policy.

Just the Facts!

As you read through the diversity of social policies described in this chapter, you may have thought of other issues that probably have unintended consequences beyond the ones in this chapter. When voting on candidates expressing views on each of these and other problems, be sure to ask the advocate of well-intentioned policies, what are the unintended consequences? Because there are unintended consequences does not mean proposals for solutions should not be adopted, but it does mean well-intentioned policies should not be adopted without considering their unintended consequences, a process that might improve whatever policy is adopted.

The social policies described in this chapter are sometimes identified with one political party or another, but objective analysis is apolitical, focusing on facts rather than opinions. When discussing policies such as those described above, the best response to most of the issues is “Show me the data.”

What type of economic system provides the most effective framework for implementing socially desirable policies? That is a more important question than specific issues addressed in this chapter – and the topic for the next chapter. Are you prepared to park your predispositions and say, “Just the facts?”

Discussion Questions

- What is some proposed government policy that you currently support? Spend some time carefully determining the behavioral effects of these policies and the resulting unintended consequences. How might the effect of these consequences be mitigated?
- What is the “fair share” of income that people in differing income levels should pay in taxes? What are the economic consequences of paying more or less than their “fair share”?
- Of the topics examined in this chapter or others proposed currently, what additional facts or data would you want to observe and analyze to determine both intended and unintended consequences?



Index

A

A&W restaurants, 91
Abrams, Dan, 6–7
Acemoglu, Daron, 87, 213
Advanced Drainage Systems (ADS), 185–186
Advertising. *See* Marketing
Affluence. *See* Prosperity; Wealth
Agriculture
 allocation of goods in, 12–13
 collectivized, 195, 196, 199–200
 diligence in, 71, 223
 kibbutzim and, 17
 national prosperity and, 71–73, 79
 production in, 11, 71
 technology for, 72, 199
AI (artificial intelligence), 56, 67, 116
Alderson, Wroe, 52
Aldi, 85
Alexander the Great, 76
Alternative evaluation stage of purchase
 decisions, 55, 59–61
Altruism, 30, 96
Amazon, 93–94, 138–139
Amtrak, 184
Angelo, Pat, 115–116
Angelou, Maya, 192
Angrist, John, 171
Antibiotics, 151–152
Anti-racism, 102–107
Arby's, 134
Ariely, Dan, 34, 55
Aristocracy, 17, 71, 76

Aristotle, 24, 76
Armed forces. *See* Military
Art and artists, 72, 73, 76, 78–79
Artificial intelligence (AI), 56, 67, 116
Association for Consumer Research, 54
Australia
 economic mobility in, 17
 establishment as penal colony, 80
 health care in, 177
Austrian school of economics, 26–30
Auten, Gerald, 125
Automation, 169, 174–175

B

Bachhuber, Marcus, 161
Bacon, Francis, 82
Bailey, Roger, 22–23, 90–91
Banerjee, Abhijit V., 34
Barbour, Scott, 186
Beckman, Theodore N., 52
Behavioral economics, 21–36. *See also*
 Consumer behavior; Decision-making;
 Incentives
 Austrian school as influence on, 26–30
 birth and rebirth of, 30–31, 51
 defined, 7, 30
 demand curves in, 22, 23
 endowment effect in, 45–46
 on market efficiency, 35–36
 overview, 21–22

- politics of, 24
- on poverty reduction, 34
- practical applications of, 55
- predictions in, 33, 146
- prospect theory and, 32–33
- rationality in, 30–32, 35, 96
- realism in, 7, 31, 34, 51
- on taxation increases, 77
- Behavioral finance, 146–147
- Behavioral sociology, 102, 105
- Berkshire Hathaway, 93
- Bezos, Jeff, 52, 93–94, 138–139, 207, 216
- Billionaires
 - economic mobility, 18, 108, 109, 132
 - job creation by, 138–139
 - learning from, 139–141
 - meritocracy and, 208
 - philanthropy by, 110–111
- Birth lottery, 15, 107, 216
- Black swan events, 11, 147
- Blackwell, Dale Joseph, 223
- Blackwell, Roger, 4–5, 53–55, 107–108, 218–219, 223–226, 229–230
- Bolsheviks, 193–195
- Bounded (limited) rationality, 30, 32, 35
- Brady, Tom, 130, 131
- Brand loyalty, 60
- British Empire, 79–81
- Budgets. *See* Money budgets; Time budgets
- Buffet, Warren, 10, 36, 110, 111, 118, 119, 147
- Business cycles, 9–10, 19, 24, 28, 74
- Business-to-Business (B2B) firms, 48, 58
- Business-to-Consumer (B2C) firms, 48
- Buyer's remorse, 60–61

C

- CAG (Compound Annual Growth), 117, 118
- Canada
 - descendants of immigrants in, 163
 - GDP per capita in, 70, 197
 - health care in, 177–180
 - immigration policies in, 164–165

Capital

- accumulation of, 43, 131
- cultural, 222
- human, 124, 129, 133–136, 140
- incentives for investment of, 39
- inheritance of, 130
- in Keynesian economics, 27, 74
- national prosperity and, 71
- return on, 126, 129, 131, 132
- value creation vs., 129–132
- Capitalism, 184–185, 194, 202–203
- Capone, Al, 163
- Card, David, 171
- Carlyle, Thomas, xi, xii
- Carson, Ben, 109
- Castro, Raúl, 184
- CBD, legalization of, 160–162
- CD (cognitive dissonance), 60–61
- CDHC (Consumer Driven Health Care), 180
- Central economic planning, 28, 196, 206
- Charter schools, 96, 109, 189
- Chetty, Raj, 109
- Chiang Kai-shek, 199
- China
 - agriculture in, 71, 199
 - collectivism in, 199–202
 - economic growth in, 77, 175, 200
 - GDP per capita in, 70
 - meritocracy in, 201–202
 - 996 workers in, 40
 - Nixon's visit to, 200, 201
 - stock exchanges in, 175–176
 - technologies from, 81, 82
 - ultra-rich families in, 133
- Christensen, Clayton, 28, 142, 180, 203–204, 207, 216
- Churchill, Winston, 71, 138, 205
- Cleanliness, 85, 86, 214, 215
- Cognitive dissonance (CD), 60–61
- Collectivism. *See also* Socialism
 - in China, 199–202
 - corruption and, 205–207
 - decision-making in, 204
 - defined, 15
 - objective analysis of, 205

- in Plymouth colony, 16–17
- in Russia, 192–197
- Collins, Jim, 221
- Colonies and colonization, 16–17, 76, 78–81
- Communist Party, 195–196, 199–202
- Competition
 - in education sector, 109, 152
 - in fast-food sector, 91
 - in markets, 24, 28, 58, 205
 - in stock exchanges, 175
- Compound Annual Growth (CAG), 117, 118
- Congress, 25, 38–40, 72, 103, 125, 164
- Conspicuous consumption, 43
- Consumer behavior. *See also* Purchase decisions
 - conspicuous consumption and, 43
 - experiments involving, 34, 55
 - as field of study, 36, 48, 51, 53–55
 - in GDP calculations, 38
 - predictions of, 55, 66–67
 - time budgets and, 44
 - values as influence on, 220
- Consumer Driven Health Care (CDHC), 180
- Converse, Paul Dulaney, 51
- Cooperman, Leon, 110
- Corporate citizenship, 187–188
- Corporate responsibilities, 189–190
- Corporations. *See* Firms
- Corruption, 77, 163, 196, 201, 205–207
- Costco, 85, 93
- Covid-19 pandemic
 - brick-and-mortar firms during, 58
 - drive-thru and carry-out sales during, 64
 - Great Resignation during, 45–46
 - labor recovery following, 173, 174
 - recession resulting from, 11
 - statistics and modeling during, 123
 - supply chain workers during, 100
 - vaccine development during, 208
 - Zoom stock during, 147
- Credit cards, 119
- Criminal records, 214
- Cultural capital, 222
- Culture of prosperity, 81, 83–87

D

- Davidson, William R., 52
- Debt forgiveness, 154–157
- Decision-making. *See also* Purchase decisions; Rationality; Unintended consequences
 - behavioral implications of, 90–91
 - in collectivist societies, 204
 - contextual influences on, 27, 30, 32, 65
 - financial windfalls and, 14
 - heuristics for, 31, 32
 - information overload in, 60
 - poverty and, 34, 41, 91
 - predictably irrational, 34, 55, 159
- Delayed gratification, 92–93, 118, 134, 135, 214
- Dell, Michael, 48, 52, 107, 116, 216
- Demand
 - changes in, 25, 30
 - heterogeneity of, 52
 - insatiability of, 12
 - price of workers and, 41–42, 47
- Demand curves, 22, 23, 26, 30, 65
- Deng Xiaoping, 200
- Denmark
 - corporate tax rates in, 191
 - Index of Economic Freedom ranking for, 186
 - tuition-free college in, 153–154
 - wealth tax abolished in, 158–159
- Depressions, 24, 74, 223
- Descriptive economics. *See* Behavioral economics
- Desires. *See* Wants
- Developing nations, trade imbalances in, 39
- Diligence
 - in agriculture, 71, 223
 - collectivism and, 206
 - education and, 133
 - in knowledge application, 66, 108, 214, 223
 - motivation and, 217

of workers, 84, 137
 Dillon, Karen, 142, 203, 216
 Dillon, Mary, 207, 218–219
 Discipline, 89–90, 109, 118, 130, 214, 222
 Discrimination. *See also* Racism
 detrimental effects of, 96–97
 in housing market, 104–105
 immigration quotas and, 164
 legal protections against, 99, 103, 104
 in U.S. military, 103, 104
 Distribution
 decentralization of, 204
 defined, 11, 12
 efficiency of, 192
 government control of, 197, 201
 methods of, 12–18, 183, 195
 production quantity and, 18
 of wealth, 119, 211, 212
 Diversity
 cultural capital and, 222
 in culture of prosperity, 86
 in leadership, 149–150
 prosperity and, 215
 training on, 188
 Dr. Dre, 129
 DoubleTree by Hilton (Reading, PA), 215
 Dragnet approach, 5, 52, 107, 142, 148
 Drug-resistant superbugs, 151–152
 Duflo, Esther, 34

E

Economic growth
 behavioral economics on, 22
 Chinese, 77, 175, 200
 government role in, 25, 82–83, 175
 monopolies and, 24
 national prosperity and, 77
 population growth and, 164–165
 Economic mobility
 of billionaires, 18, 108, 109, 132
 in colonial era, 81
 equal opportunity for, 138, 214, 217
 incentives for, 137, 142, 204

income and, 135
 individual responsibility and, 211
 inequality and, 132–133, 139, 142
 innovation and, 142, 204, 207
 intergenerational, 17, 90, 216
 poverty vs., 132–133
 Economics. *See also* Behavioral economics;
 Traditional economics; *specific*
 economists
 Austrian school of, 26–30
 as dismal science, vii, xi, xii
 Keynesian, 24–28, 34–36, 51, 74, 204
 laissez-faire, 28
 macroeconomics, 31, 37, 51
 microeconomics, 31, 51
 Nobel Prize in, 25, 29, 33–34, 171, 188
 Economy. *See also* Distribution; Markets;
 Production
 business cycles in, 9–10, 19, 24, 28, 74
 central planning and, 28, 196, 206
 in Covid-19 pandemic, 11
 defined, 8
 depressions in, 24, 74, 223
 gig, 127
 inflation and, 9, 31, 84, 137, 167
 metrics for analysis of, 8–9, 37
 mixed, 184–185
 in Nordic socialism, 186–192
 recessions in, 9–11, 19, 24–25, 74–75, 140
 underground, 126–127
 as zero-sum game, 4, 204, 211
 EDGAR database, 130, 191, 219
 Education
 anti-racism in, 105–106
 at charter schools, 96, 109, 189
 diligence and, 133
 diversity training, 188
 financial support for, 134, 216–217
 human capital and, 133–136
 income level and, 46, 47, 116, 153–154
 industrial, 94
 at KIPP schools, 106, 108, 112–113
 at Land-Grant universities, 72
 motivation and, 134, 152, 153
 in overcoming poverty, 89–90

student debt forgiveness, 154–157
tuition-free college, 152–154
value of, 53–55

Efficiency
of capital, 74
of distribution, 192
of high-skilled workers, 47
of marketing functions, 52
of markets, 35–36
of production, 192

Egypt (ancient)
agriculture in, 71–73
art and artists in, 72, 73
business cycles in, 24, 74
military of, 72, 73, 75
recession in, 11, 74, 75

Einstein, Albert, 117

Ellison, Christopher, 180

Emergency funds, 10

Emotional needs, 57

Endowment effect, 45–46

Engel, James F., 53, 55

Engels, Friedrich, 194, 197

**Entrepreneurship. *See also* Innovation;
*specific entrepreneurs***
colonization and, 80
delayed gratification and, 92, 93
detail-oriented nature of, 60, 61
firm complacency as opportunity for, 65
in Internet development, 29
meritocracy and, 18
problem recognition in, 57
prosperity and, 48, 52, 57, 65–66, 216

**Environmental, Social, and Governance (ESG)
policies, 185–186**

Esper, Terry, 100–102

Exports, 38–39, 73, 78–79, 84

F

Fair Housing Act of 1968, 104

Farming. *See* Agriculture

Federal Reserve, 25, 39, 40, 48, 176

Feeney, Chuck, 111

Felony convictions, 214

Fenty, Robyn Rihanna, 129, 131

Finance, behavioral, 146–147

Financial literacy, 14, 157

Financial Transaction Taxes (FTTs), 175–176

Financial windfalls, 13–15

Firms. *See also specific companies*
brick-and-mortar, 57, 58, 61
Business-to-Business, 48, 58
Business-to-Consumer, 48
communication programs for, 59
complacency of, 65
corporate citizenship and, 187–188
Desert Storm logistics officers hired by, 73
ESG policies of, 185–186
leadership of, 149–150, 219
marketing functions of, 52
online retailers, 58–59, 61–62
PE ratio for, 146–147
profit maximization by, 26, 35
social and ethical responsibilities of, 189–
190
taxation of, 191
values and success of, 221–222
VRIO analyses by, 47

Floyd, George, 100

Ford, Henry, 40, 210

Fricker, Ron, 123

Friedman, Milton, 28

Frugality, 93, 95, 109, 211, 214, 229

FTTs (Financial Transaction Taxes), 175–176

Funderburke, Lawrence, 90, 114, 222

Fusion organizations, 208

G

Garza, Aaron, 115

Gaston, A.G., 57, 94–96, 204, 207, 216

Gates, Bill, 48, 52, 107, 111, 116, 138, 216

GDP. *See* Gross Domestic Product

General Motors (GM), 8, 201

***Genesis* (biblical book), 11, 24, 73–74**

Gibbon, Edward, 77

Gig economy, 127

GNH (Gross National Happiness), 8–9
 GNI (Gross National Income), 8
 GNP (Gross National Product), 8–9
 Goldsby, Tom, 102
 Gorbachev, Mikhail, 195
 Government
 Austrian school on interference by, 27
 corruption in, 77, 196, 205–207
 distribution influenced by, 18
 economic growth and, 25, 82–83, 175
 in fusion organizations, 208
 GDP affected by, 38–40
 income of workers in, 42–43
 Keynesian economics on role of, 24, 25, 74
 revenue sources for, 77
 transfer payments by, 125–128, 167
 Gravity Payments, 168–169
 Great Resignation, 45–46
 Greece (ancient), 76
 Greer, Scott, 151
 Gross Domestic Product (GDP)
 components of, 38–39
 defined, 8
 in depressions, 24
 formula for calculation of, 37–38
 per capita, 8, 69–70, 80, 83, 85–87, 197
 population as driver of, 70
 in recessions, 9
 year-over-year growth of, 9
 Gross National Happiness (GNH), 8–9
 Gross National Income (GNI), 8
 Gross National Product (GNP), 8–9
 Growth stocks, 147

H

Hancock, Matt, 151
 Happiness, 8–9, 11, 86, 145
 Hartigan, James, 139–140
 Hayek, F.A., 28–29, 204
 Health care, 124, 126, 176–180, 209–211
 Hebestriet, Chuck, 90
 Hendren, Nathaniel, 109
 Heskett, James, 221

Heuristics, 31, 32
 High-skilled workers, 46–47, 116
 Homans, George C., 102, 106
 Homelessness, 113–116, 127
 Housing discrimination, 104–105
 Howard, John A., 53
 Hsieh, Tony, 90–91
 Huawei, 200
 Huegy, Harvey Wilborn, 51
 Human capital, 124, 129, 133–136, 140
 Humanomics, 112

I

Ikea, 85
 Immigration policies, 163–165
 Imports, 38, 39, 78
 Incentives
 for economic mobility, 137, 142, 204
 for hiring high-skilled workers, 46
 for innovation, 87, 155, 203
 for Internet development, 29
 for investment of capital, 39
 minimum wage increases and, 168–169
 for philanthropy, 111
 for value creation, 153
 Income
 education level and, 46, 47, 116, 153–154
 Gross National Income, 8
 of high-skilled workers, 46–47, 116
 inequality in, 124–126
 international comparisons, 41, 113, 184
 maximization of, 35
 minimum wage, 167–173
 money budgets and, 41–43, 46
 objective analysis of, 125
 purchase decisions and, 56, 58
 racial gaps in, 106
 redistribution of, 137
 unreported, 126–127
 in zero-sum game economy, 4
 Index of Economic Freedom, 186
 India
 economic growth in, 77

GDP per capita in, 70
 independence from British Empire, 81
 Narayana Hospital in, 209–211
 U.S. importing of physicians from, 180
Individual responsibility
 economic mobility and, 211
 in overcoming poverty, 90
 prosperity and, 214, 216
 racism as, 100, 102
 rewards for, 202, 212
Industrial education, 94
Industrial Revolution, 81–82
Inequality, 123–142
 in ancient Greece, 76
 behavioral solutions to, 137
 credit card use and, 119
 economic mobility and, 132–133, 139, 142
 education and, 133–136
 in income, 124–126
 ironic inequality paradox, vii, 139
 labor as source of, 129–132
 meritocracy and, 214
 objective analysis of, 124, 125
 of opportunity, 140–141
 Piketty's analysis of, 124–126, 129–133, 140
 transfer payments and, 125–128
Inflation, 9, 31, 84, 137, 167
Information overload, 60
Infrastructure, 25, 148, 185, 188, 199
Inheritance
 of capital, 130
 regulations on, 18
 of wealth, 17, 108, 132, 133, 216
Innovation. *See also* Entrepreneurship
 agricultural, 72
 economic mobility and, 142, 204, 207
 incentives for, 87, 155, 203
 technological, 29, 57, 72
 value-added products and, 84
Insatiability of demand, 12
Instrumental values, 221, 226
Interest rates, 25, 39, 74, 142, 165
Internet, 29, 58–59, 61–62
Interstate Highway System, 148–150, 184

Intrinsic value of stocks, 147
Investment
 financial windfalls and, 14
 in GDP calculations, 38, 39
 incentives for, 39
 property rights and, 82
 in skillset improvement, 42
 strategies for, 117–118
 in technology, 93
 "Invisible hand" of markets, 24, 25
Ironic inequality paradox, vii, 139
Irrationality, 34, 35, 55, 159. *See also*
 Rationality
Isaacson, Walter, 111
Israel, Kibbutzim in, 17

J
Jacoby, Jacob, 60
James, E.L., 129
Jay-Z, 129
Jobs, Laurene Powell, 111
Jobs, Steve, 48, 52, 60, 107, 111–112, 116, 216
Johnson, Kristina, 156–157
Joseph (biblical figure), 11, 24, 73–75

K
Kadens, Pete, 135
Kahneman, Daniel, 31–34, 146
Kaltman, Areyah and Esther, 140–141
Katona, George, 30–31, 51, 102
Keller, Tim, 102
Keynes, John Maynard and Keynesian economics, 24–28, 34–36, 51, 74, 204
Keys to prosperity
 affordable health care, 209–211
 automation, 174–175
 being nice, 62–64
 corporate citizenship, 187–188
 corporate responsibilities, 189–190

debt-free education, 156–157
 decision-making, 90–91
 diversity, 215
 ESG policies, 185–186
 financial windfalls and, 13–15
 government and economic growth, 82–83
 homelessness and, 115–116
 life lessons from Joseph, 74–75
 life skills development, 141–142
 Marx on, 197–198
 Medicare for All, 178–179
 mentors, 218–219
 minimum wage increases, 170–172
 net benefits of Internet and, 29
 objective analysis, 6–7
 paying attention to details, 25
 predictions of consumer behavior, 66–67
 racism and, 97–102, 148–150
 rationality and, 31–32
 recession preparation, 10
 responses to life events, 4–5
 Roger's Rules for Success, 226, 229–230
 Social Security, 166–167
 transfer payments, 127–128
 unintended consequences and, 162–163
 value of academia and, 53–55
 work-life balance, 45–46
 Kibbutzim, 17
 Killingsworth, Matthew, 8
 King, Martin Luther, Jr., 95, 106–107
 Kissinger, Henry, 200
 Kline, Patrick, 109
 Knowledge

- academic institutions as sources of, 53–54, 216–217
- advancement of humanity through, 82
- bounded (limited) rationality and, 35
- diligence in application of, 66, 108, 214, 223
- prosperity and, 71, 214, 216
- retrieval from memory, 57

 Knowledge is Power Program (KIPP) schools, 106, 108, 112–113
 Kodak, 65
 Kollat, David T., 53, 55, 189–190

Kotter, John, 221
 Krueger, Alan, 171

L

Laffer, Arthur and Laffer Curve, 158
 Laissez-faire economics, 28
 Lee Kuan Yew, 86
 Lenin, Vladimir, 15, 192–195
 LifeTown, 140–142
 Limited (bounded) rationality, 30, 32, 35
 Literacy, financial, 14, 157
 Lotteries, 13–15, 22, 107, 116, 216
 Loveless, Ron, 168

M

Ma, Jack, 201
 Macroeconomics, 31, 37, 51
 Madonna, 129
 Malthus, Thomas R., xi
 Mandatory minimum wage, 167–173
 Mandela, Nelson, x, 225
 Mankad, Shawn, 171–172
 Manufacturing sector, 11, 17, 174, 185, 199
 Mao Zedong, 199–200
 Marijuana, legalization of, 160–162
 Marketing

- cognitive dissonance and, 60–61
- definitions of, 51, 52
- demand curve shifts as goal of, 22
- numerical processing and, 91
- at point-of-purchase, 61
- purchase decisions and, 58, 59
- social influencers and, 59, 60
- words for effectiveness in, 152

 Markets

- competition in, 24, 28, 58, 205
- distribution controlled by, 18
- efficiency of, 35–36
- failures within, 204
- "invisible hand" of, 24, 25

- for means of production, 28
- organizing power of, 27
- segmentation of, 52
- spontaneous order of, 28, 29
- Marshall, Peter, 97
- Marshmallow studies, 92–93, 214
- Martin, Sunny, 98–99
- Marx, Karl, 15, 43, 131, 192, 194, 197–198
- Marxism–Leninism, 184, 194, 195, 202
- Maynard, Harold H., 52
- McCartney, Paul, 129
- McCloskey, Diedre, 92, 112, 136, 138, 213
- McDonald's, 134, 167
- McKenna, Andy, 218
- McLanahan, Sara, 136
- McMillon, Doug, 130, 168
- Means of production, 28, 203
- Medicaid, 126, 176–177
- Medicare for All, 176–180
- Megison, Chris and Tammy, 114
- Mental health issues, 91
- Mentors, 89–90, 141, 214, 216, 218–219
- Mercantilism, 24, 78
- Meritocracy, 17–18, 183, 201–202, 207–208, 214
- Microeconomics, 31, 51
- Middle class, 78–79, 119, 136–138, 193, 202
- Mikhelson, Leonid, 197
- Military
 - discrimination within, 103, 104
 - national prosperity and, 72, 73, 75–76
- Minimum wage, 167–173
- Mischel, Walter, 92
- Mises, Ludwig von, 28, 205
- Mitchell, Robert Victor, 51
- Mixed economies, 184–185
- Mobility. *See* Economic mobility
- Mokyr, Joel, 81–82, 213
- Momentum stocks, 147
- Money budgets, 40–43, 46, 65, 163, 203
- Monopolies, 24, 172, 204, 205
- Moore, Wes, 89, 214
- Morrill Land-Grant Acts, 72
- Moses (biblical figure), 72
- Moses, John, 149

- Motivation
 - diligence and, 217
 - economic mobility and, 137
 - education and, 134, 152, 153
 - firm strategy and, 190
 - to help others, 110–112, 216
 - personal, 89–90, 214
 - prosperity and, 108, 111, 214
 - terminal values and, 221
- Mulcahy, Anne, 218

- N**
- Nadella, Satya, 35
- Napoleon Bonaparte, 73
- Narayana Hospital, 209–211
- National Health Service (UK), 177, 178
- National Highway Act of 1956, 149
- National prosperity, 69–87
 - agriculture and, 71–73, 79
 - ancient examples of, 71–77
 - arts and, 72, 73, 76, 78–79
 - colonization and, 76, 78–81
 - GDP per capita in, 69–70
 - global dominance and, 75–77
 - Industrial Revolution and, 81–82
 - military and, 72, 73, 75–76
 - nation-state emergence and, 78–79
 - objective analysis of, 30
 - power to improve, 37, 39–40
 - time and money budgets in, 40, 44
 - values and, 81, 83–87, 113, 213, 220–221
- Natural resources, 69–70, 85, 87, 113, 197, 213

- Needs
 - consumer changes in, 63
 - distribution based on, 15, 16, 195
 - emotional, 57
 - purchase decisions and, 55–57
 - social, 57, 189
 - wants vs., 12, 41
- Neoclassical model. *See* Behavioral economics
- Net benefits of Internet, 29

Netherlands

- agriculture in, 79
- art and artists in, 78–79
- culture of prosperity in, 85
- per capita GDP in, 70
- wealth accumulation by, 131

Neumann, Adam, 131

News Nation, 6–7

Newsom, Gavin, 161

Newton, Isaac, 82

Nicholas II (Russia), 193

Nicosia, Francesco, 53

996 workers, 40–41

Nixon, Richard, 200, 201

Nobel Prize, 25, 29, 33–34, 171, 188

Noise, in data interpretation, 33–34, 146

Nordic socialism, 186–192

North, Douglas C., 82–83

Norway

- corporate tax rates in, 191
- Index of Economic Freedom ranking for, 186
- tuition-free college in, 153–154

O

Objective analysis

- apolitical nature of, 181
- of collectivism, 205
- of income, 125
- of inequality, 124, 125
- of Medicare for All, 180
- by news media outlets, 6–7
- of policy proposals, 212
- of price-quality relationship, 22
- of prosperity, 30, 132, 146, 165
- of systemic racism, 99
- of unintended consequences, 146, 160, 181

Ojomo, Efosa, 142, 203, 216

Oligarchs, 197

Online platforms. *See* Internet

On-the-job values, 219

Operation Desert Storm, 73

P

Pandemic. *See* Covid-19 pandemic

Partisanship, in news outlets, 6–7

PE (Price to Earnings) ratio, 146–147

Pell Grants, 134

People's Republic of China (PRC). *See* China

Per capita GDP, 8, 69–70, 80, 83, 85–87, 197

Personal motivation, 89–90, 214

Philanthropy, 110–111

Piketty, Thomas, 124–126, 129–133, 140, 157

Pilgrims and Plymouth colony, 16–17, 80

Poole, Craig, 215

Poverty

- decision-making and, 34, 41, 91
- economic mobility vs., 132–133
- economic principles in determination of, 3
- homelessness and, 113–116, 127
- minimum wage increases and, 167, 173
- overcoming, 89–90, 108–109
- in post-World War I era, 28
- predictors of, 136

PRC (People's Republic of China). *See* China

Predictably irrational behavior, 34, 55, 159

Predictions

- in behavioral economics, 33, 146
- of consumer behavior, 55, 66–67
- demand-related, 25, 26
- of prosperity vs. poverty, 136
- in traditional economics, 7, 26, 34, 146

Price-quality relationship, 22, 23

Price to Earnings (PE) ratio, 146–147

Problem recognition stage of purchase decisions, 55–57

Product differentiation, 59–60

Production. *See also* Gross Domestic Product

- agricultural, 11, 71
- in collectivist economies, 201
- decentralization of, 204
- defined, 11
- efficiency of, 192
- Gross National Product, 8–9

- historical changes in, 11–12
- means of, 28, 203
- meritocracy and, 17
- quantity considerations, 18
- Profit maximization, 26, 35, 85
- Progressive taxation, 18
- Prohibition, 162–163
- Propensity to buy, 39
- Property rights, 82, 157, 186, 214
- Prospect theory, 32–33
- Prosperity. *See also* Income; Keys to
 - prosperity; National prosperity;
 - Wealth
- barriers to, 4, 109, 207
- culture of, 81, 83–87
- diversity and, 215
- entrepreneurship and, 48, 52, 57, 65–66, 216
- government role in, 25, 208
- of high-skilled workers, 46
- knowledge and, 71, 214, 216
- monopolies and, 24
- motivation and, 108, 111, 214
- of 996 workers, 40–41
- objective analysis of, 30, 132, 146, 165
- paths to, 12, 15, 65–66, 72, 91–92, 109–110, 213–220
- predictors of, 136
- time and money budgets in, 40–42, 44
- values and, 15, 81, 83–87, 91–92, 113, 213–222
- Purchase decisions, 55–62
 - alternative evaluation stage of, 55, 59–61
 - diagram of process for, 66–67
 - Internet and, 58–59, 61–62
 - outcomes resulting from, 55, 56, 60–61
 - price-quality relationships and, 22, 23
 - problem recognition stage of, 55–57
 - propensity to buy and, 39
 - purchase stage of, 55, 61–62
 - search stage of, 55, 57–59
 - time and money budgets in, 41, 46–47
 - traditional economics on, 26, 27, 60
- Putin, Vladimir, 196

R

- Racism, 94–107
 - anti-racism, 102–107
 - behavioral antidotes to, 94–97
 - as individual responsibility, 100, 102
 - Interstate Highway System and, 148–150
 - Marx and, 198
 - rising above, 97–99
 - in supply chains, 100–102
 - systemic, 99–100, 102–107
- Rajamannar, Raja, 56
- Ramsey, Dave, 119
- Rasmussen, Lars Lokke, 186
- Rationality. *See also* Irrationality
 - altruism and, 30, 96
 - in behavioral economics, 30–32, 35, 96
 - bounded (limited), 30, 32, 35
 - of purchase decisions, 55
 - self-interest and, 30, 31, 96
 - in traditional economics, 22, 26, 30–32, 35, 96
- Read, Ronald, 117
- Realism, 7, 31, 34, 51
- Recessions, 9–11, 19, 24–25, 74–75, 140
- Resources. *See* Natural resources
- Responsibility. *See* Individual responsibility
- Retirement planning, 117–118, 166–167, 176, 189, 219
- Return on capital, 126, 129, 131, 132
- Ricardo, David, 131
- Robinson, James A., 87, 213
- Rockefeller, John D., 12
- Roger's Rules for Success, 226, 229–230
- Roman Empire, 76, 77, 160
- Roosevelt, Franklin and Eleanor, 103
- Ross, Tracee Ellis, 218
- Russia
 - collectivism in, 192–197
 - GDP per capita in, 69–70, 197
 - oligarchs in, 197

S

- Saez, Emmanuel, 124
Salary. *See* Income
Samuel, Lashawn, 217
Samuelson, Paul, 25–26
Sanders, Bernie, 129, 131, 175
Santaella-Tenorio, Julian, 160–161
Santayana, George, 71
Savings, 86, 116–120, 131–132, 165, 175, 214
Schooling. *See* Education
Schumpeter, Joseph, 27–28, 172, 204
Schwartz, Shalom and Schwartz Value Survey, 220
Search stage of purchase decisions, 55, 57–59
Segmentation of markets, 52
Self-interest, v, 30, 31, 96
Sheth, Jagdish N., 53
Shetty, Devi, 209–210
Shunko, Masha, 171–172
Sibony, Olivier, 34, 146
Sinclair, Minnie, 63
Singapore
 culture of prosperity in, 85–86
 economic mobility in, 17
 GDP per capita in, 85–86
 health care in, 180
 immigration policies in, 165
 saving behavior in, 86, 131–132
Slavery, 72–77, 87, 97
Smith, Adam, xii, 24, 27, 28
Smith, Robert F., 108
Social influencers, 59, 60
Socialism. *See also* Collectivism
 critical analyses of, 28
 in kibbutzim, 17
 in mixed economies, 184–185
 Nordic, 186–192
 in Plymouth colony, 16–17
Social media, 60, 105, 108
Social needs, 57, 189
Social Security, 166–167
Social welfare. *See* Welfare programs
Sociology, behavioral, 102, 105
Solutions for Change, 114
Son, Masayoshi, 131
Sowell, Thomas, 108–109
Splinter, David, 125
Spontaneous order, 28–29
Stalin, Joseph, 195–196
Standard economic model. *See* Traditional economics
Stanley, Andy, 118
Stanley, Tom, 108
Starbucks, 134
"Starving artists" stereotype, 73
Steward, David, 108, 140, 216
Stigler, George, 28
Stocks, share value of, 146–147
Student debt forgiveness, 154–157
Subsidies, 126–128, 155, 211
Sunstein, Cass R., 34, 146
Sun Tsu, 217
Superbugs, 151–152
Supply
 changes in, 25
 homogeneity of, 52
 insatiability of demand and, 12
 price of workers and, 41–42, 47
Supply chains, 58, 73, 100–102, 162
Sweden
 corporate tax rates in, 191
 education in, 189
 health care in, 177
 Index of Economic Freedom ranking for, 186
 neutrality during World War II, 188
 tuition-free college in, 153–154
 wealth tax abolished in, 159
 welfare programs in, 187, 188, 190
Swindoll, Charles, 4, 207
Switzerland
 culture of prosperity in, 83–86
 GDP per capita in, 83, 85
 health care in, 180
 university professor salaries in, 42

values of, 84–85, 220–221
Systemic racism, 99–100, 102–107

T

Taxation

business cycles and, 24, 74
corporate, 191
Financial Transaction Taxes, 175–176
increases in, 77
progressive, 18
for social services, 84
Value Added Tax, 191
of wealth, 124, 157–160

Technology

agricultural, 72, 199
artificial intelligence, 56, 67, 116
automation, 169, 174–175
Chinese, 81, 82
for flood control, 85
innovation in, 29, 57, 72
Internet, 29, 58
investment in, 93
military, 76
social media, 60, 105, 108

Terminal values, 221, 226

Thaler, Richard, 34

Thomas, Dave, 62–64, 107, 112, 216

Time budgets, 40–44, 46–47, 65

Trade

exports and, 38–39, 73, 78–79, 84
imbalances in, 39
imports and, 38, 39, 78
mercantilism and, 24, 78
wealth from, 78

Traditional economics

deductive methods of, 33–35
demand curves in, 22, 26, 30, 65
on insatiability of demand, 12
"invisible hand" in, 24, 25
predictions in, 7, 26, 34, 146
on purchase decisions, 26, 27, 60
rationality in, 22, 26, 30–32, 35, 96
on taxation increases, 77

on time budgets, 43, 44

Transfer payments, 125–128, 167

Trotsky, Leon, 194

Trujillo, Sol, 218

Truman, Harry, 103–104, 164

Tuggle Institute, 94, 96

Tuition-free college, 152–154

Turner, Frederick Jackson, 206

Turner, Nicholas, 109

Tuskegee Airmen, 103, 104

Tversky, Amos, 32, 33, 54

U

Underground economy, 126–127

Unintended consequences, 145–181

of antibiotics, 151–152
of automation, 174–175
of Financial Transaction Taxes, 175–176
of immigration policies, 163–165
of incentivizing philanthropy, 111
of Interstate Highway System, 148–150
of mandatory minimum wage, 167–173
of marijuana and CBD legalization, 160–162
of Medicare for All, 176–180
objective analysis of, 146, 160, 181
of Prohibition, 162–163
of stock market strategies, 146–147
of student debt forgiveness, 154–157
of tuition-free college, 152–154
of wealth taxes, 157–160

United States

agriculture in, 72–73
corporate tax rates in, 191
economic mobility in, 17, 214
GDP per capita in, 70, 85, 197
homelessness in, 113–116
income in, 41, 113
Index of Economic Freedom ranking for, 186
middle class in, 136–138
military of, 73, 103, 104
as mixed economy, 184–185

population growth in, 164
university professor salaries in, 42

V

Value

creation of, 9, 129–133, 153
of education, 53–55
endowment effect and, 45–46
of hard work, 63
of products, 27, 64–65
of skillsets, 42, 46
of time, 41, 42, 45–47

Value-added products, 84

Value Added Tax (VAT), 191

Values

being nice, 62–64
consumer behavior and, 220
defined, 220
in determination of consequences, 5
in education, 96
firm success and, 221–222
instrumental, 221, 226
on-the-job, 219
parental transmission of, 15, 118, 130,
139, 216
prosperity and, 15, 81, 83–87, 91–92, 113,
213–222
terminal, 221, 226

Vance, J.D., 89, 214

VAT (Value Added Tax), 191

Veblen, Thorstein, 43

VRIO analyses, 47

W

Wages. *See* Income

Walker, Madam C.J., 108

Walmart, 73, 85, 107, 109–110, 130, 134,
168

Walton, Sam, 52, 107, 109–110, 118, 134–
135, 207, 216

Wants

consumer changes in, 63
distribution based on, 13
needs vs., 12, 41

Washington, Booker T., 94

Water-diamond paradox, 27

Wealth

conspicuous consumption and, 43
distribution of, 119, 211, 212
economic principles in determination of, 3
inheritance of, 17, 108, 132, 133, 216
labor as source of, 129–132
land as source of, 192
maximization of, 35
philanthropic giving and, 110–111
racial gaps in, 106
saving behavior and, 116–117
taxation of, 124, 157–160
trade-based, 78
value creation and, 129
in zero-sum game economy, 4

Websites. *See* Internet

Weingast, Barry, 82–83

Welfare programs, 127–128, 187, 188, 190

Wendy's, 63–64, 107, 112

Weston, Thomas, 80

Whittaker, Andrew, 14

Williams, Serena, 130, 131

Williams, Thomas E., Jr., 180

Windfalls, financial, 13–15

Wine, price-quality relationship for, 23

Winfrey, Oprah, 102

Wooldridge, Adrian, 207

Work ethic, 71, 84, 94, 128, 130

Work-life balance, 45–46

World Wide Technology (WWT), 140

X

Xi Jinping, 202

Y

Yeltsin, Boris, 195

Yu, Qiuping, 171–172

Z

Zero-sum games, 4, 204, 211

Zhou Enlai, 200

Zinn, Walter, 102

Zoom, 147

Zuckerberg, Mark, 42, 48, 107

EXCERPT



About Rothstein Publishing

ROTHSTEIN PUBLISHING is the premier global content provider in the core disciplines of Business Continuity Management; Emergency Management; Disaster Recovery and Prevention; Information Security; Risk Management; Crisis Communications; Management; and Leadership. Since 1989, we've published an extensive, informational suite of books in these important subjects. More recently we've established ourselves as a serious publisher in the fields of Cybersecurity; Critical Infrastructure; Business Strategy; and Leadership.

Our founder **Philip Jan Rothstein, FBCI**, is an internationally known management consultant, entrepreneur, publisher, columnist, contributor to 100+ books.

Our authors are globally recognized; several are uniquely distinguished international thought leaders as founders of their respective industries. Most have also been key participants in developing industry standards and best practices. Some are founding fellows of the Business Continuity Institute, as is our publisher Philip Rothstein, who was elected a Fellow in 1994 in recognition of his substantial contributions to the profession.

No matter the company size or your level of expertise, you'll find in Rothstein's publications the most current and practical advice, tools, & tips to protect your employees, facilities, and financial assets, manage your legal & reputational risks and grow your business.

Rothstein Publishing is a division of Rothstein Associates Inc., an international management consultancy founded in 1984.





About the Authors

ROGER BLACKWELL

financed his education by working at radio and television stations and a newspaper in Missouri. After receiving his Ph. D. at Northwestern University, he joined the faculty of The Ohio State University where he taught 65,000 students and co-authored *Consumer Behavior*, a textbook used throughout the world in multiple languages and editions, and 30 other books.

He also lectured and conducted research in 40 countries on seven continents, observing in-person why people are poor or prosperous. While a professor, he was on the boards of fourteen public corporations. Currently, he serves on boards of private organizations and teaches seminars about economics in the U.S. and Canada.





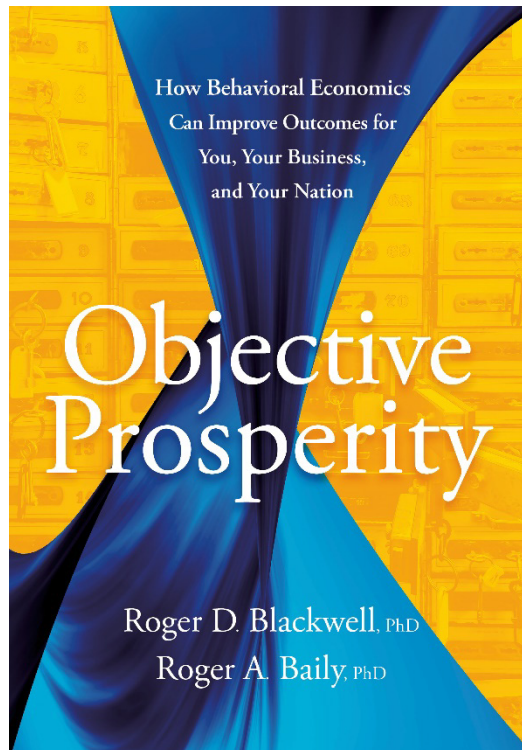
ROGER BAILEY was born in Toledo, Ohio, and lived in the economically depressed east side until middle school. After his parents divorced, his mother married a musician, leading his family to move around the country throughout his adolescence (Arizona, Tennessee, Idaho).

Declining to move again, Roger worked on a cattle ranch in Southern Idaho through his last two years of High School. The friendships and different perspectives he gained through

these experiences have been invaluable.

After graduation, Roger moved to Northern Arizona and returned to school at the local community college. He continued working full-time at the local hospital while earning his Bachelor's degree and Master of Science in Mathematics at Northern Arizona University, graduating Summa Cum Laude and with Distinction respectively.

A desire to work in a more applied area led Roger to pursue a Ph.D. in Economics at Vanderbilt University and a post-doctorate position in marketing at the Fisher College of Business. As a Clinical Assistant Professor of Marketing, Roger teaches coursework that applies mathematics, statistics, and economics to improve decision-making in the field of marketing. A passionate educator and student advocate, Roger has won multiple teaching awards in his time at The Ohio State University and also serves as Academic Director of the Full-Time MBA program.



Objective Prosperity: How Behavioral Economics Can Improve Outcomes for You, Your Business, and Your Nation

by Roger D. Blackwell, Ph.D., Retired Professor, The Ohio State University and Roger A. Bailey, Ph.D., Clinical Assistant Professor, The Ohio State University

“This book, [Objective Prosperity](#), will make you think. What factors influence the chances for individual success and national prosperity? How does behavioral economics help us understand who is financially rewarded? How can you prosper even if you were born poor? What is the best way to manage your savings? The authors cite the thoughts of many profound thinkers on how to live a rewarding life.” – Philip Kotler, S.C. Johnson & Son Distinguished Professor of International Marketing, emeritus, Kellogg School of Management, Northwestern University

[Click HERE to buy now on AMAZON](#)

Available in print and eBook

[Click HERE to learn more about OBJECTIVE PROSPERITY](#)