



EJW

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Scholarly Comments on
Academic Economics

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Scholarly Comments on Academic Economics

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Editor's Notes: Acknowledgments 2016–17

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EJW is now honored again by the opportunity to move to the [Fraser Institute](#), Canada's leading think tank. The Fraser Institute is one of the great classical liberal organizations, and it is the parent of the [Economic Freedom project](#) led by James Gwartney, Robert Lawson, Joshua Hall, and Fred McMahon; EJW has published numerous articles that make significant use of the index (see [1](#), [2](#), [3](#), [4](#), [5](#)). The move has been facilitated by the Institute's Executive Vice-President Jason Clemens. EJW is proud indeed to have a partner in the Fraser Institute, and very grateful.

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Professional Ethics 101: A Reply to Anne Krueger's Review of *The Oxford Handbook of Professional Economic Ethics*

George F. DeMartino¹ and Deirdre N. McCloskey²

[LINK TO ABSTRACT](#)

When you have influence over others you take on ethical burdens. Think of your responsibilities to, say, your family or friends. And when you fail to confront those burdens openly, honestly, and courageously you are apt to make mistakes. As professional economists we have influence, and we do develop conversations about how we operate. Yet there is no serious, critical, scholarly conversation about professional economic ethics—never has been. That's not good.

We are the editors of *The Oxford Handbook of Professional Economic Ethics* (DeMartino and McCloskey 2016a). With 777 pages, 37 chapters, and 49 contributors, the book explores ethics issues in research methods and practices within the profession. Each chapter has its own focus and speaks with its own voice, but sustained throughout is the judgment that economists should think and talk more seriously about professional ethics, and should strive, of course, to be more ethical. That does not mean that economists are evil. It means that they should watch it. In the Introduction we express the hope to “generate the new field of professional economic ethics” (2016b, 4).

One would think that such a wholesome plea would be wholesomely received. Yet the book received a highly critical review by Anne Krueger in the

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Journal of Economic Literature (Krueger 2017). A basic rule of the ethics of criticism is to not misrepresent the object of criticism. The rule is violated by Krueger, and in numerous ways. Some of the most important misrepresentations are not merely off, but quite opposite from the true character of the volume.

A bit of background on the editors and the origin of the *Handbook*: One of the editors, McCloskey, is an orthodox economist, or at any rate has been for decades at a time. She still in 2018 thinks that supply and demand curves are pretty neat, and uses Harberger Triangles with gusto. She thinks most complaints about imperfections in free markets are mistaken (McCloskey 2018). The other editor, DeMartino, is heterodox—to the left of Krueger and McCloskey—but he thinks it essential to listen to and learn from open-minded orthodox economists. He invited McCloskey to co-edit the *Handbook* because he wanted to ensure that the *Handbook* reflected a wide range of views, including those that differed sharply from his own. The same sentiment induced McCloskey to join the project. DeMartino authored the first book on the need for professional economic ethics—*The Economist's Oath* (DeMartino 2011). So yes, he's a critic of orthodox economics. And when it comes to the professional practice of economists, so is McCloskey.

It was courageous of Krueger to take on reviewing the book. But we detect patterns of misrepresentation. The patterns have two facets. First, Krueger makes the 37 chapters sound more alike than they are. Yes, one must generalize, especially for such a volume, but the review should not overstate the agreement among the chapters. Krueger does so, frequently letting a part represent the whole when it does not. Second, her generalizations are often simply different from what any reasonable generalization would be. So our task here is to untangle Krueger's overgeneralizations and misrepresentations.

What went wrong? We speculate that Krueger quickly formed an impression of the book, leading in her mind to an imaginary book. The *imaginary* book is a compilation with the following features:

1. The authors are predominantly left-leaning heterodox economists;
2. They predominantly gripe about the economics profession and conclude that “all of ‘mainstream economics’ is deficient” (Krueger 2017, 212);
3. On the whole the drift of the book calls for a professional code of ethics;
4. A salient aspect of the book is the impossible demand that the economist know everything before advocating a proposed reform;
5. A salient aspect of the book is an urging of a “do no harm” principle in policy espousal;
6. A salient aspect of the book is an urging that all viewpoints always be

represented in an economist's policy analysis.

Krueger, we think, got a notion of how to compose a critique of the imaginary book, and then proceeded without paying much mind to the actual book. Her reading experience was “frustrating,” she tells us (2017, 216). We speculate that she culled bits from the book, then construed them according to her preconceptions.

As a critique of *the imaginary book*, Krueger's review is spirited and engaging; it shows more gusto than the typical *JEL* review. The final paragraph of the review captures the flavor and strategy:

For many years, those influenced by Max Weber have recognized his distinction between “ethicists of conviction” and “ethicists of responsibility.” The former are idealists and may advocate entirely impractical or unattainable actions. The latter act on what is possible and recognize that second-best may be preferable to no action. Weber called the former “windbags” in nine out of ten cases. In the case of this volume, the authors are clearly the ethicists of conviction, while mainstream economists are usually ethicists of responsibility. (Krueger 2017, 216)

Krueger alludes to a lecture that Max Weber delivered in 1918 to a group of socialist students, students too imbued with the ethic of conviction and not enough with the ethic of responsibility; Weber does say that the two need to be combined.³ One irony of Krueger's performance is that many of her points against ethic-of-conviction follies are sound—and those points are explored in detail in the *Handbook*, unnoticed by Krueger. She allows the innocent reader to perceive an ethic-of-conviction strawman, and then scores ethic-of-responsibility points against him.

Talking ethics is hard work, because it requires getting our mind *around* things that we usually work *within*. Those who lack competence in talking ethics are apt to dismiss such talk as windbagery. We have too much respect for Krueger to believe that she set out to distort the book's contents. She is little practiced in discussing ethics, and was impatient with the very idea. Her preconceptions, we think, interfered with her ability to digest the words on the page.

Some blame, we feel, should be put on the *Journal of Economic Literature*. Even without the book at hand, the *JEL* editors should have detected problems in the review. One problem is the quoting of text absent page citations. Common though

3. Krueger cites Weber's lecture “Politics as a Vocation” as it appears in the translation by Gerth and Mills (Weber 1946, 77–128). Another translation (Weber 1994, 309–369) follows Krueger's gloss on the duality, but in the Gerth and Mills translation the ethic of conviction is rendered “ethic of ultimate ends” (1946, 120–122, 127).

the unscholarly practice is in many fields nowadays, it leads to error. Krueger, for example, serves up phrases in quotation marks that do not appear in the book at all. The casual reader is given the strong impression that the target is real.

The review transgresses the basic ethical rule against misrepresenting the object of criticism, and worse, it is done by an eminent figure of the profession, writing for one of its leading journals.

The book does not call for a code of ethics

Krueger speaks of the book's "call for a code of ethics for economists" (2017, 216) and for "a stronger code of ethics" (*ibid.*, 210). The attribution has us scratching our heads.

The book jacket ([link](#)) says: "professional ethics is not reducible to a code." The *first* section head of the editors' introduction to the book says: "Professional Ethics is Not a Code of Conduct" (DeMartino and McCloskey 2016b, 4). We emphasize it from the start, and, invoking Milton Friedman, come down *against* the idea of a code: "Properly understood, professional ethics is nothing of the sort. It is a conversation rather than a constraint, a dance rather than a pose" (*ibid.*, 5).

The market-oriented Krueger understands that legislation cannot govern the nuances of practical life. Would she listen if she heard it from seasoned market-oriented economists? All right. That is what Peter Boettke and Kyle O'Donnell do in Chapter 7. Under the section heading "A Professional Code of Ethics is an Ineffective Solution," they mount an unequivocal case against such a code (2016, 126–129).

Grave reservations about codes of conduct are echoed throughout. Of the 37 chapters in the book, only five are open to the idea of a code of some sort or other, all but of these focus on a *narrow* matter of conduct in context: Jessica Carrick-Hagenbarth and Gerald Epstein (conflict of interest); David Levy and Sandra Peart (who suggest that disclosure of *ideological* commitments might be as relevant as those of monetary interests); Alan Freeman (a code against telling untruths); and Robert Thornton and John Ward (examination of the existing code in forensic economics). In contrast, David Colander alone advances a case for a comprehensive code. He argues that economics would do well to model its professional ethics on engineering ethics—especially the value it places on humility.

The bottom line is that the contributors disagree among themselves about the value of a code of conduct for economists, though they mainly come down against. The merits and demerits *are debated*. Krueger misrepresents the posture toward codes of conduct, and neglects the book's wide-ranging treatment of the issue.

No one in the book calls for “do no harm”

At the start of the third paragraph of her review Krueger writes, “One of the policy prescriptions accepted throughout much of the volume is ‘first, do no harm’” (2017, 210). All policy reforms have gainers and losers, she explains, and, moreover, *not reforming* can be seen as having gainers and losers, relative to the would-be world of reform (ibid., 212). Regarding “do no harm,” Krueger does not hold back: “Yet on that principle, the volume fails miserably” (214). Yet she provides no page citation to anyone endorsing “do no harm.”

Once again, Krueger denies credit due. *None* of the book’s contributors endorses “do no harm.” The Hippocratic dictate is *discussed* by DeMartino; Boettke and O’Donnell; Freeman; Des Gasper; Harold Alderman, Jishnu Das, and Vijayendra Rao; and Sheila Dow. All problematize the applicability of “first, do no harm” to economic practice (though Freeman does advocate the more plausible “first, tell no untruth”). In their introduction to the volume, for instance, the editors ask, “What does ‘do no harm’ mean in a world where there are no free lunches and where all actions (including doing nothing) entail tradeoffs?” (DeMartino and McCloskey 2016b, 7). It is Krueger’s point. But also ours. DeMartino argues that “the Hippocratic directive ‘first, do no harm,’ if taken as an inviolable mandate or a decision rule, has no relevance in economics since it would imply that economists can do nothing at all” (2016, 72). Gasper writes that “often the do-no-harm principle cannot be fulfilled: not only cannot all consequences be foreseen, but ethically desirable material progress depends on development projects that inevitably displace some people, and full remedial compensation appears not always possible” (2016, 535). Alderman, Das, and Rao (2016) recognize that valuable research projects sometimes risk harm to research subjects. They grapple with this problem in their essay but they certainly don’t call for the termination of all risky research. And Dow (2016) examines how the value of pluralism in economics complicates the Hippocratic principle since distinct schools of thought are apt to define harm in distinct ways.

We have searched for “do no harm” in an electronic copy of the book, and found it on pages 7, 72, 130, 405, 407, 535, 536, 554, 651, 751, 755, 756, and 761. “Hippocratic” appears on pages 7, 72, 130, 137, 498, 534, 651, and 672. We also spied instances of “doing no harm” on pages 498 and 760, and “do no direct harm” on page 609. Never is “do no harm” endorsed as a first principle for economists; rather, the authors use its shortcomings to problematize harm and explore trade-offs. How, then, can Krueger claim that “accepted through much of the book is ‘first, do no harm’” (2017, 210)? What book is she reading?

No one requires the economist to know everything before acting

Krueger says “[m]ost of the authors are sympathetic toward or even advocate” the demand that economists “‘know everything’ about who will gain and who will lose from a given policy” (2017, 215). She objects: “How would one ‘consider and identify’ all the gainers and losers before taking action?” (ibid., 212). Krueger puts “know everything” and “consider and identify” in quotation marks as though textually moored to the book—but she gives no citations, nor could she, since neither phrase appears in it. And word checking aside, the general attribution is wrong: The problem with her schooling of we dunderheads that “it is simply not possible to know the identities of all the winners and all the losers” (ibid.) is that no one in the book advances any such foolishness. Some contributors do discuss tallying gains to winners and losses to losers—but if their arguments are objectionable, then so are the procedures defining standard cost-benefit analysis that economists employ every day.

In this connection Krueger (2017, 212) alludes to DeMartino (without citing a page, or spelling his name correctly). DeMartino would readily agree that he has no idea how one would identify all gainers and losers of a policy change—but then, he never calls for such a thing. DeMartino’s essay explores different themes altogether, including the inherent complexity of the concept of harm, a complexity that is obscured, he claims, if all harm is reduced to the loss of welfare defined in terms of preference satisfaction. DeMartino calls on the economics profession to do better in theorizing, anticipating, recognizing, avoiding, and ameliorating the serious harms that are often associated with economic policy interventions such as trade liberalization. Note the absence of *no* and *all* here. DeMartino holds with the other contributors that what we do as economists often entails harm, sometimes grave harm. He calls this “the tragedy of economics” (DeMartino 2016, 77ff.; DeMartino and McCloskey 2016b, 7). That’s a *description* and not an *indictment* of economic practice; it goes with the territory. His indictment is that the profession oversimplifies the concept of harm, reducing it to welfare comparisons so that economists can solve ethical problems through mathematical representations. Philosopher Howard Radest (1997) calls that approach “moral geometry.” DeMartino finds moral geometry to be inappropriate, especially when livelihoods and lives are at stake. It would have been interesting to hear Krueger’s thoughts on the arguments. But that would have required closer attention to the text than she was prepared to give.

No one in the book says that economists should consider all viewpoints

Another misreading is Krueger’s representing the book’s pluralism as a call to represent *all* viewpoints. She writes: “The rejection of mainstream economics leads to calls, throughout the volume, to consider ‘all viewpoints,’” and she wonders “how ‘all viewpoints’ would be determined” (2017, 213). She writes: “for an economist to attain sufficient familiarity with ‘all alternatives’ to satisfy most of the *Handbook* authors would reduce efforts on much else” (ibid., 215). Though represented as quotations, albeit without page citation, the phrases “all viewpoints” and “all alternatives” are not in the book. And, again, Krueger’s malpractice lies not merely in punctilio but in the substantive attribution: No one in the book makes any such foolish insistence, and yet Krueger makes the attribution repeatedly.

Krueger identifies Shelia Dow and Alan Freeman as the primary purveyors of the nonsense. Would, Krueger asks, the economist have to summarize the preferred policies of “crackpot” writers (2017, 213)? But of course, the contributors to the book do not propose such a thing, as even the text from Freeman’s and Dow’s essays quoted by Krueger demonstrates. Freeman would require mainstream economists to engage their “*principal critics*” (2016, 664, our emphasis). And, remarkably, Dow writes:

Pluralism is often misunderstood as an open season on any viewpoint at all, or “anything goes,” something that comes perilously close to nihilism. From a logistical point of view, there is a limit to the number of approaches to economics that can be sustained, given that knowledge activities are pursued within knowledge communities. So pluralist economics would be structured roughly (and provisionally) around a range of such communities. (Dow 2016, 760)

Dow’s essay makes the point that if we theorize the economy as an “open system,” as she maintains we should (2016, 752ff.), then we need to engage a range of methods and theories since open systems are internally heterogeneous and inherently dynamic. Dow contends that open systems do not lend themselves to adequate exposition via universal application of a small set of explanatory variables. If there’s something wrong with that argument for pluralism—the argument Dow actually makes—then Krueger should tell us, rather than attributing to Dow an argument she doesn’t make.

Krueger writes: “Sheila Dow, for example, urges a ‘pluralistic’ and ‘wide

range of approaches” (Krueger 2017, 213)—no page cites, and “wide range of approaches” does not appear in the book, and “pluralistic” does not appear in Dow’s essay. Krueger declares, “In [Dow’s] view, all policy advocates should make clear not only what they advocate, but what would be advocated by those with different viewpoints and what their perspective would be on the policy being advocated” (ibid.). Krueger tells an extended story of a country facing a balance of payments crisis, saying “the adviser would also need to present the cases for internal devaluation, dollarization, a currency board, and much more” (ibid.). We might ask: Why not? Acknowledging rival approaches, whether in policy options or in understanding the issue at hand, can enrich and humble the conversation. Is the suggestion so unreasonable? Krueger continues, “Thinking of what the executive summary might look like defies the imagination!”

Those silly lefty heterodoxers

Another aspect of Krueger’s errors is that in many cases she misconstrues arguments in a way that tends to paint the content as leftist. Posing as the mature defender of Max Weber’s ethic of responsibility, Krueger seems to be force-fitting the book into the mold that Weber addressed—the sophomoric left-oriented ethic of conviction. To unsuspecting *JEL* readers of the right sort, it makes for gratifying reading, like some of the actual fake news out there.

Krueger ridicules Boettke—ignoring the coauthor O’Donnell—for (supposedly) claiming:

that the influence of special interests on research resulted in misleading ordinary people into “distorted ideas” that led to the adoption of policies that had “enormous costs to society.” The policies he [*sic*] cites (one sentence only with no further elaboration) are “deregulation, privatization, and various free market policies.” (Krueger 2017, 211 n.3).

That would be an astonishing argument for Boettke and O’Donnell to make. Given Boettke’s prominence as an Austrian economist, one would have thought that it would have been a red flag to the editors at the *JEL*. Krueger’s quotation from Boettke and O’Donnell actually comes from *their presentation of others’ thoughts*, specifically ones that Boettke and O’Donnell term “the popular narrative,” about which they say: “there are serious defects in the popular narrative, its diagnosis of both the financial crisis and the supposed corruption of economics...Indeed, *we cannot imagine a more inaccurate picture of contemporary history, economic theory, political economy, or the sociology of the economics profession*” (2016, 118, our emphasis). Those who

recall Gilda Radner’s old *Saturday Night Live* character Emily Litella will think of the amiable rejoinder: “Never mind.”

Another astonishing case is Krueger’s treatment of Robert Nelson. Krueger writes:

Robert Nelson seems to demonstrate a similar lack of familiarity with “mainstream” economics. In a thoughtful chapter on the clash between environmentalism and economics, he concludes that economics can only help interest groups. The idea that there may be ways of achieving the same environmental objective (be it preservation of a species or reducing some emissions) in more and less costly ways does not seem to enter the analysis. (Krueger 2017, 213)

The treatment might give one the impression that Nelson is one of those silly lefty environmentalists. Nelson, whose policy bent is to be sure toward freer markets, spent 18 years as a high-level economist in the Department of the Interior. His essay examines the ethical challenges associated with *his efforts to promote the value of economic efficiency* in the Department. We are mystified as to how Krueger can summarize the essay by saying that Nelson “concludes that economics can only help interest groups”—notice, no page cite. That is not something that Nelson concludes or even suggests. Rather, he explores an analogy of economics as a religion of net-benefit social reform, a religion that too often *neglects*, he notes, established social conditions. Krueger’s characterization of the essay has no basis.⁴

Another set of errors relates to ideological caricaturing. Krueger represents the book as believing that economists readily descend into dishonesty to serve their paymasters or partisan affinities. Krueger writes: “It is even suggested (de Martino [*sic*], p. xiv) that ‘it is obvious’ that economists supporting a political party have a conflict of interest and are dishonest in their advocacy in support of that party.” There are two problems here—the cited passage appears in the Foreword by William Easterly, not the editors’ introduction by DeMartino and McCloskey or the chapter by DeMartino. And *Easterly never says or even intimates that economists supporting a political party are dishonest*. What he does say is something that experts in conflict of interest readily confirm:

it will be obvious that an economist *advising* a political party or serving as a political appointee *has a conflict of interest in research or policy recommendations that support or oppose that party’s positions*. The economist should obviously disclose any such relationship to political parties or causes if it is not already public

4. We wonder whether a misreading by Krueger of page 596 of Nelson’s essay led her into strange characterization of the essay.

knowledge. (Easterly 2016, xiv, our emphases)

Nothing about dishonesty here—the discussion addresses the ethical complexity arising from the webs of professional entanglements within which economists often find themselves, and the economist’s duty to disclose her entanglements.

Krueger claims that several authors cite the film *Inside Job* (Ferguson, dir., 2010) “as proof that economists were paid by financial interests and, by implication, that this was morally wrong (p. xiv)” (2017, 211). Yes, several contributors mention the film to introduce a point or motivate an argument (see pp. xiv, 75 n.5, 117, 123, 138, 139, 156, 171, 268, 342 n.16, 460, 461, 477, 737, 738, 748, 749). Some of those allusions (see pp. 171, 268, 461) have a flavor of Krueger’s representation, though none use the film as proof in the way Krueger claims. Once again Krueger has misrepresented the whole, as several contributors object to the film’s chief allegations.⁵ Here is what Easterly (not DeMartino) says on the very page cited by Krueger:

Conflict of interest in economics gained much (unwanted) attention after the documentary *Inside Job* accused some finance economists of doing analysis favorable to financial industry interests while receiving undisclosed pay from those same interests. *Even if you believe, as I do, that Inside Job was unfair to some of its targets*, it did fuel a crisis of confidence in economists that we all have a strong interest in correcting (Easterly 2016, xiv, our emphasis).

Once again, Krueger misrepresents the whole and gives no credit when the book makes points that she herself makes, indignantly.

5. Besides the Easterly quotation provided in the text, consider what two other contributions say about *Inside Job*. First, Colander (2017, 737):

The sense conveyed by the movie is that economists are for sale. In my view, that is far from the case; economists are not for-hire any more than a similar group of academic experts, and probably significantly less than many, because by academic standards, economists tend to be well paid. The money given to economists by groups that support the policy positions they are espousing, either in the form of honoraria for a talk, payment as a director or consultant to the company, or funding for research, is seldom the reason economists are supporting their policy positions. The causal link generally goes the other way around.

Next, Boettke and O’Donnell’s essay (2017, 123):

While critics of economics, including *Inside Job*, argue that the discipline has been corrupted by private interests, they say astonishingly little about the influence of political interests and the state in economics. This glaring, unjustified asymmetry poses a major defect in critics’ arguments, and overlooks the really significant potential problem of “corruption” in the structure of production that links the scientific discipline of economics to political actors and policy outcomes.

Krueger responds on one of the errors

Another head scratcher is Krueger’s treatment of Robert Thornton and John Ward. She writes:

There is an article, by Robert J. Thornton and John O. Wade [*sic*] (pp. 671–93) on forensic economics, in which the authors are highly critical of the adversarial approach to court determinations of values of losses and seem to believe that prohibiting economists, and asking laymen, to testify would produce better results. There is no convincing argument made as to why that process would be superior. Nor is it clear how laymen would be chosen: if not randomly, there could be equal if not greater conflicts there. If repeatedly, issues arise. And so on. But none of this is discussed. (Krueger 2017, 216 n.4)

Krueger butchers it badly, again giving no page citations when characterizing the chapter. Far from suggesting laymen give economic testimony and that economists’ testimony be prohibited, Thornton and Ward, channeling Richard Posner, consider the use of *court-appointed forensic economists* from a list maintained by a third party such as the AEA (Thornton and Ward 2016, 687). They consider whether that might ensure less biased, higher quality forensic work. They are not unfavorable, though they doubt that it will actually be taken up. We have no idea how anyone could get the impression that Thornton and Ward “seem to believe that prohibiting economists, and asking laymen, to testify would produce better results.”

Shortly after the publication of Krueger’s review, Thornton and Ward wrote to Krueger to point out the mischaracterizations of their work and to ask, politely, if she had perhaps confused their essay with some other. To her credit, Krueger has acknowledged her errors in correspondence with the authors. That is how economic ethics ought to go, yes?

Improving, not revolutionizing, ourselves

Krueger makes a few respectful gestures toward the book: “leading thinkers” (2017, 209); “a few helpful, constructive chapters” (*ibid.*, 210); “there are thoughtful criticisms” (214). But the overall representation is negative. Krueger writes: “The handbook is almost entirely about what is perceived to be wrong with ‘mainstream economics’” (210).

Professional ethics is a matter of improving our work as economists. It is

unfortunate that discourses about how we might improve are readily perceived or represented as calls for revolution. The whole matter gets turned into Us versus Them, the Orthodox scientists versus Heterodox deplorables, the ethic of responsibility versus the ethic of conviction. Thus Krueger: The book “constitutes a series of attacks on mainstream economics and the practice of economics, but does not offer a serious alternative” (2017, 209).

Of course, revolutionaries should be asked: And after the revolution, what then? But how many of the contributors are revolutionaries?

Half the *Handbook*'s contributors are prominent in the so-called mainstream of the profession, including a number of economists who have spent many years in leading positions at the Bretton Woods institutions (at least ten at the World Bank), prominent government economists, highly regarded forensic economists, pioneers in experimental economics and field studies, and so forth. We also wanted to include scholars central in the development of feminist economics, social economics, Austrian economics, and other heterodox traditions. In hopes of establishing dialogue about ethical professional conduct, we included eminent philosophers and a theologian, as well as the uncategorizable Nassim Taleb, who with coauthor Constantine Sandis emphasizes “skin in the game.”

Krueger greatly overdraws the book's revolutionary element. As we have seen, she gives a false impression of some of the pro-market contributors, and she neglects altogether several chapters by still other pro-market contributors (including Chen et al. 2016; Wilson 2016; Levy and Peart 2016). The fact is, the ideological array is diverse. More importantly, the majority of chapters take on specific fields or specific ethical challenges. It is no wonder that the book offers no grand vision to replace the mainstream. The book, rather, teems with nudges contextualized to the practices of economists.

Krueger finds value in some of the contributions, such as the essays on economic randomized controlled trials (RCTs). She is right to do so—the essays by RCT practitioners Rachel Glennerster and Shawn Powers, by World Bank field researchers Harold Alderman, Jishnu Das, and Vijayendra Rao, and by RCT critics Stephen Ziliak and Edward Teather-Posadas together probe carefully the promise, challenges, and risks of field experiments, especially when conducted among vulnerable communities. One essay identifies what the authors (Ziliak and Teather-Posadas) view as egregious ethical lapses, while the other two explore the ethical terrain and offer best practices for field research. But Krueger paints matters as the volume not offering a “serious alternative” to the entire mainstream. Maybe Krueger doesn't like it when Ziliak and Teather-Posadas call for “clinical equipoise” in RCTs (2016, 425, 448), but, here and pervasively in the book, contextual, piecemeal alternatives—suggestions for improvement—are proposed and evaluated.

Krueger attacks the views of David Ellerman, an advisor to Chief Economist under Joseph Stiglitz and Nicholas Stern at the World Bank, on the transition from communism.⁶ One of the handbook's co-editors, McCloskey, and several contributors to the volume would agree with Krueger on the historical substance. The co-editor DeMartino and several other contributors do not. But the point is that the volume gave voice to a *range* of positions, exactly as a book examining the ethics of the mainstream ought to. Krueger claims that the book says that "all policy prescriptions based on existing knowledge are fatally flawed" (2017, 210). No, it does not.

And so

When life gives you lemons, make lemonade. That is a good ethic—an ethic of responsibility to conditions, as well as potentialities. We regret the representation made of *The Oxford Handbook of Professional Economic Ethics* in the *Journal of Economic Literature*. We ask readers to not let themselves be misled by it and we invite them to join us in the conversation about our ethical responsibilities to each other and to those we hope to serve.

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The Progressive Legacy Rolls On: A Critique of Steinbaum and Weisberger on *Illiberal Reformers*

Phillip W. Magness¹

[LINK TO ABSTRACT](#)

The September 2017 issue of the *Journal of Economic Literature* contained a review essay that fell far short of reasonable scholarly standards. Authored by Marshall Steinbaum and Bernard Weisberger, the article attacks Thomas Leonard's 2016 book *Illiberal Reformers: Race, Eugenics and American Economics in the Progressive Era*, published by Princeton University Press. Using severe and condemnatory descriptors throughout their essay, Steinbaum and Weisberger accuse Leonard of engaging in "motivated history," of making "sweeping statements about what 'the progressives' believed, festooned with cherry-picked quotes and out-of-context examples," of pushing historical revisionism "into the realm of anachronism" (2016, 1065), of being "filled with selected quotations" to cast progressives in a poor light (*ibid.*, 1075), of painting a "false picture" of progressivism (1066), of engaging in "motivated myth making" (1077), and of serving "the current sustained attack on progressivism and its works that has moved the country steadily rightward for some forty years" (1082).

These and other similar charges are serious, but Steinbaum and Weisberger come nowhere near demonstrating them. Not only do they neglect to deliver any of the promised examples of "selected" or "cherry-picked" quotes in Leonard's work, but they also fail to substantively engage with the large body of evidence he presents. What appears instead is a 20-page display of Steinbaum and Weisberger's enthusiasm for progressive politics and the progressive identity.

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In the outset of Steinbaum and Weisberger's *JEL* essay, they state that "motivated history is not good history" (2016, 1065). Economists are capable readers of motivation, and do not see scandal in motivation per se. But motivations must be judged, and some motivations are worthier than others. As a work of history, Leonard's study may be understood as an exploration of the dangers of scientific hubris and specifically of how the progressive-era embrace of administrative "expertise" opened the door to the policies of sterilization, eugenic hereditary planning, and heightened support for immigration restrictions. Leonard's purpose is to show why early 20th century progressivism gravitated to and openly cultivated such illiberal policies. The explanations he posits—an embrace of "scientific authority" and an enthusiasm for expert-guided control—are not radical or unusual. Indeed, they are conspicuous themes in progressive-era administrative theory. But, as Nicola Giocoli (2017, 161) has noted, Steinbaum and Weisberger somehow manage to completely miss this central argument of Leonard's work.

What we find in Steinbaum and Weisberger's own product is the primary motivation of offering modern followers of progressivism a redemptive escape from the baggage of their racist and eugenicist forebears. It is a job for Houdini, and the history that Steinbaum and Weisberger offer shows no such deftness. Their review proceeds on the supposition that progressivism is praiseworthy. Since Leonard's study explores the historical relationship between progressivism and racial eugenics, his book collides with the historical picture of a praiseworthy progressivism that Steinbaum and Weisberger uphold, and they formulate an attack so as to reconcile historical progressivism with the identity and selfhood of progressives today. Ideological collision rouses turbulent passions, but such passions should be held to standards of intellectual responsibility and decency.

I find myself in agreement with Giocoli's erudite "review of a review" (2017, 157). But Steinbaum and Weisberger's review, appearing as it does in the *Journal of Economic Literature*, warrants further attention. The review is littered with factual mistakes and imprecisions big and small; as Giocoli notes, "there would be grounds to counter almost every single statement" (*ibid.*, 163).² But I will focus on central

2. Even on smaller matters, Steinbaum and Weisberger's essay is awash in errors of detail and presentation. For example, Steinbaum and Weisberger characterize Francis Amasa Walker as "a General in the Civil War" (2017a, 1073)—confusing an honorary brevet to brigadier general that Walker received in July 1866, over a year after the war's conclusion, for his actual rank and responsibility during the war. They credit progressive economist Edwin R. A. Seligman's 1911 book, *The Income Tax*, as "an important element in [the Sixteenth Amendment's] 1913 passage" (*ibid.*, 1079), but the amendment itself actually passed in 1909 as part of an unsuccessful and largely unrelated attempt to block the Payne-Aldrich Tariff Act. Seligman's book emerged as a post hoc contribution to the amendment's ratification, which occurred with only modest regional opposition some three and a half years later. They claim to find "anachronism" in Leonard's passing reference to the hereditary theories of ancient philosopher Plato while discussing the 19th century origins of eugenics (*ibid.*, 1065; see Leonard 2016, 109), even though Karl Pearson (1909,

problems with the review.

Steinbaum and Weisberger do not do justice to Leonard's scholarship and contributions

By far, the most problematic historical element of Steinbaum and Weisberger's argument is its engagement with the problem of progressive eugenics. Not only do they fail to deliver their promised examples of "selected" or "cherry-picked" quotations in Leonard's work, they also fail to substantively engage with the large body of evidence he presents. What follows instead is an exercise in historical euphemism wherein the faults of progressive eugenicists are acknowledged with a passing nod, only to be quickly historicized as common expressions of the prejudices of the time. To do so Steinbaum and Weisberger shower the charge of *tu quoque!* upon laissez-faire adversaries of progressivism (2017a, 1064, 1066, 1077–1078, 1081), though without doing much to specify or document the charge.

Steinbaum and Weisberger say that "all, or at least much, of [the progressive eugenicist] history was known—revealed decades ago" (2017a, 1065), as though Leonard's documentation is old news. And they imply that Leonard neglected prior scholarly works by Mary Furner (1975), by a new wave of progressive historians such as Richard Hofstadter who investigated matters of race and economic interests starting in the 1950s, and by turn-of-the-century critics of progressive racism such as W. E. B. Du Bois (1899).

Yet one need only open Leonard's text to find these and other relevant works extensively surveyed (Leonard 2016, 36, 49–54, 70, 119–124, and accompanying

24), a founding figure of eugenics, expressly claimed Plato's influence in his own lineage. Steinbaum and Weisberger (2017a, 1067–1068) selectively quote William Graham Sumner, presenting a somewhat notorious descriptive passage on Darwinian characteristics in nature as a prescriptive design even though Sumner never intended as such. In doing so they also decontextualize the passage from Sumner's other known views (see Zwolinski 2013). Throughout the essay they adopt a general practice of presenting unsourced assertions as if they were matters of fact when a stronger citation is warranted. Examples range from a lengthy digression about the political achievements of Wisconsin Sen. Robert La Follette, who occupies a minimal position in Leonard's work, to frequent declarative lists of progressive ideological objectives as if they were uncontested policy accomplishments (Steinbaum and Weisberger 2017a, 1074, 1079, 1081). In another oddity, Steinbaum and Weisberger assert that "Leonard prefers the awkward term 'progressive social Darwinist'" to the term "reform Darwinist" (*ibid.*, 1068), yet the phrase "progressive social Darwinist/Darwinism" does not even appear in Leonard's book, and Leonard *does* use "reform Darwinist/Darwinism," even in a section title (2016, 98, 100, 101, 103). Elsewhere, Steinbaum and Weisberger (2017a, 1072) misquote Leonard while suggesting that Leonard misrepresents progressive beliefs about wage labor; the referenced passage from Leonard (2016, 86) simply summarizes a longstanding progressive grievance against treating labor as a "commodity" and wages as analogous to the prices of material inputs to production.

endnotes). Furner even provided a blurb for the dust jacket of *Illiberal Reformers*, stating that its treatment of progressivism “offers a wealth of new material on discrimination based on gender, race, and class” and “fascinating new evidence of what Leonard terms its ‘dark side’” ([link](#)).³ Moving beyond *Illiberal Reformers*, Steinbaum and Weisberger neglect to inform their readers of any of Leonard’s extensive historiography on progressive eugenics, which ranges from a critique of Hofstadter’s investigation of “Social Darwinism” to more contemporary treatments of progressive legal and economic theory (Leonard 2003; 2005a; b; c; 2009a; b; 2012; 2015; Bernstein and Leonard 2009). And Leonard in fact views Du Bois in particular as highly consistent with his own findings. Although *The Philadelphia Negro* was a “herculean effort with a sophisticated economic analysis” (Leonard 2016, 70), Du Bois’s white progressive contemporaries largely overlooked his documentation of links between race, labor, and immigration policy.

After diminishing Leonard’s work, Steinbaum and Weisberger set out to rebury progressive eugenics in a layer of euphemism. To describe the set of policies and beliefs that Leonard forthrightly reveals as rampant collectivist illiberalism—eugenics and coerced sterilization programs, immigration restrictions premised on racial and hereditary pseudoscience, the use of minimum wages and labor regulations to drive “unfit” persons or even entire races from the labor force, and outwardly racist “intellectual” defenses of white supremacy—Steinbaum and Weisberger repeatedly deploy a single, remarkably mild adjective: “exclusionary” (2017a, 1064, 1066, 1069, 1071, 1072, 1077, 1078, 1081). The first sentence of their abstract both epitomizes the strategy and highlights its absurdity: What *Illiberal Reformers* claims, we are told, is that progressive economists held “exclusionary views on eugenics” (ibid., 1064). One is left imagining what are the “views on eugenics” that could be considered nonexclusionary! Steinbaum and Weisberger do acknowledge that sterilization, among other similar policies, was “cruel in its implementation and false in its rationalizations” (ibid., 1081), but that moment of relative clarity is an exception.

3. Bradley W. Bateman, in a largely critical review of *Illiberal Reformers* for the journal *History of Political Economy*, writes the following regarding its originality: “no one until now has documented the full extent [of American economists’ advocacy of eugenics].... Leonard has done an excellent job...of uncovering the evidence.... The story of progressivism will never be told exactly the same way again after Leonard’s book” (2017, 718). Furner (2017), in her own extended review essay on *Illiberal Reformers*, specifically credits Leonard for precisely the same contributions that Steinbaum and Weisberger deny him. Even as she acknowledges her own interpretive disagreements with Leonard, she writes that “we will nowhere else find the extensive mining of statements and actions expressing a virulently sordid side of what we have called progressivism. This book is a necessary corrective.”

Steinbaum and Weisberger fail to deliver progressives a redemptive escape from eugenics

In their limited consideration of the particulars of Leonard’s evidence, Steinbaum and Weisberger move into both historical falsehood and stunning disregard of the poisonous influence of eugenicist practices. They attempt to parse motives that differentiate progressive eugenicists like Richard T. Ely, John R. Commons, and Edward A. Ross from a supposedly more insidious set of laissez-faire adversaries. The progressives, they concede, “certainly did express their own exclusionary views, but those views were motivated by seeking to increase the bargaining power of a narrowly defined set of workers”—namely the white working class. This concern for worker uplift supposedly is what led the progressives to adopt racial theories “legitimizing exclusion from the labor market” (Steinbaum and Weisberger 2017a, 1078). In short, the ugly means of progressive eugenics retained elements of a more noble and redemptive cause rooted in an abstract labor struggle. Lest there be any confusion that Steinbaum and Weisberger intend partial exoneration of the progressives in making this line of argument, they state it even more directly in a 2016 op-ed anticipating their *JEL* collaboration:

Yes, [Woodrow] Wilson and other Progressives did hold racist views that were common at the time. But they shared those views with their intellectual rivals among ‘free market’ economists and journalists, although each group was motivated by different assumptions in arriving at those views. Moreover, Progressives were motivated not simply by racism as the revisionists imply, but by more generous tendencies—motivations that have been written out of the revisionist narratives by Leonard, [Jonah] Goldberg, [Tyler] Cowen, and other critics. (Weisberger and Steinbaum 2016)

This parsing leads into even stranger historical territory when they juxtapose the euphemized, historicized, and partially exonerated progressives Ely, Commons, and Ross against a laissez-faire strawman:

For their intellectual adversaries, on the other hand, the exclusion was motivated by *their* ideology: that extending full political and human rights to “outsider” groups risked overturning the social hierarchy and impairing the proper functioning of the market, because members of those groups could not be trusted to supply their own labor and thus required the supervision of employers to do so—its own elaborate, racist typology. (Steinbaum and Weisberger 2017a, 1078)

Since subsequent progressives, we are told, “have enlarged the sphere of those deemed worthy of advocacy,” they bear no blame and carry no lingering resemblance to their “exclusionary” predecessors. The ugly baggage of eugenics falls, by default, solely onto the laissez-faire camp, and remarkably so without even having to document comparable laissez-faire complicity in its designs.⁴

No evidence is provided by Steinbaum and Weisberger to substantiate their desired parsing of motives—neither do they provide any instance of such parsing in the progressives’ own words nor any instance in the secondary literature. Steinbaum and Weisberger simply assert it to be so. Yet in doing so they breeze right past the extensive evidence and detail that Leonard presents in his book. Interestingly enough, that evidence includes numerous examples of progressives espousing the precise “racist typology” that Steinbaum and Weisberger ascribed to their laissez-faire opponents: the idea that “members of [‘outsider’] groups could not be trusted to supply their own labor” (2017a, 1078).

Consider for example the following passage by Commons, in which he not only distrusts the ability of African-Americans to supply their own labor without supervision but veers disturbingly close to a defense of slavery:

In the entire circuit of the globe those races which have developed under a tropical sun are found to be indolent and fickle. From the standpoint of survival of the fittest such vices are really virtues, for severe and continuous exertion under tropical conditions bring prostration and predisposition to disease. Therefore, if such races are to adopt that industrious life which is a second nature to races of the temperate zones, it is only through some form of compulsion. The Negro could not possibly have found a place in American industry had he come as a free man... (Commons 1904, 13)

Leonard (2016, 121) quotes that passage and a similar argument by Ross, who asserts, “The theory that races are virtually equal in capacity leads to such monumental follies as lining the valleys of the South with the bones of half a million picked whites in order to improve the condition of four million unpicked blacks” (1907, 137; quoted in Leonard 2016, 121). At evidence in both statements

4. Steinbaum has elsewhere advanced a claim that public choice scholarship is inseparably connected to and motivated by racism (Steinbaum 2017). He has done so on account of a recent book that deploys innuendo and misrepresents historical evidence in an attempt to link public choice theorist James M. Buchanan to segregationist politicians in the 1950s (MacLean 2017; on Steinbaum and MacLean, see Farrell and Teles 2017). It is too hard to resist making note of the extreme inconsistency between this dismissive condemnation of public choice and Steinbaum’s parallel attack on Leonard: One historian’s fabricated claim is sufficient in Steinbaum’s mind to tarnish an entire disliked field of study, and yet we are to politely brush past the overtly racist and eugenicist writings of those progressives who made the liberals like Spencer and Sumner their adversaries. To borrow from Spencer (1851, 212), a rather awkward doctrine, this.

is precisely the “racist typology” that Steinbaum and Weisberger imply was not among the motives of progressives.

Nor are these statements simple aberrations of careless language from their authors’ peripheral contributions. They are recurring themes. Commons (1907, 41), in another work, used an aggressively Darwinian analogy to liken the heredity of African-Americans to the breeding of cattle: “Other races of immigrants, by contact with our institutions, have been civilized—the negro has only been domesticated.” Ross (1901, 88–89) infamously developed the theory of “race suicide” wherein the fertility of an “inferior race” in the presence of a “higher race” could supposedly induce the latter’s reproductive decline, and an accompanying societal dysgenic effect. In his many writings on this subject, he made no effort to conceal that he ranked African-Americans, Chinese, and southern and eastern Europeans as racial inferiors to Anglo-Saxon stock.

Even less virulent commentaries by the leading progressives shared the elements of the “racist typology.” Although he expressed concerns about the “race prejudice” of whites against blacks, Ely blamed the latter’s economic woes on “their shiftlessness, their ignorance, their dependence upon credit advances in the farming districts, and their alarming concentration in a few occupations, some of which—particularly as they practice them—are neither educational, uplifting, nor developmental” (1912/1909, 62).⁵ Ely notoriously assailed the “human rubbish-heap of the competitive system,” a large class of “feeble” persons who must be discouraged from breeding lest “social degeneration” result (1903, 163). And he advocated other extreme forms of supervision of certain groups, as here:

[T]here are classes in every modern community composed of those who are virtually children, and who require paternal and fostering care, the aim of which should be the highest development of which they are capable. We may instance the negroes, who are for the most part grownup children, and should be treated as such. (Ely 1898, 781; cf. Leonard 2016, 121)

So who were the supposedly racist laissez-faire adversaries of these progressives? Steinbaum and Weisberger (2017a, 1077) tar the liberals Edwin L. Godkin, Simon Newcomb, and William Graham Sumner with favoring “exclusionary” policy simply because they supported free enterprise and opposed the welfare state. Steinbaum and Weisberger also (*ibid.*, 1077–1078) make a convoluted argument involving the sociologist Franklin Giddings, an unlikely choice of anti-

5. Ely then complained of an “immigration problem,” approvingly quoting Francis Amasa Walker’s description of recent immigrants as largely belonging to “beaten races, representing the worst failures in the struggle for existence” (Ely 1912/1909, 63). Other appalling passages from Ely are featured in the compendium “Richard T. Ely: The Confederate Flag of the AEA?” (Thies and Daza 2011).

progressive interlocutor⁶ and certainly not an advocate of *laissez-faire*.⁷ They present a vague and heavily excerpted passage from Giddings's informal comments at an 1893 American Economic Association panel on agricultural woes. They inflate his off-the-cuff remark as being illustrative of a tendency of *laissez-faire* economists to attribute economic failings to “innate group characteristics,” thereby supposedly implying eugenics. Yet in full context, Giddings's comment was a narrow response to remarks about the proposed Subtreasury Plan of constructing federally bonded warehouses to issue credit to farmers in exchange for crop deposits. Giddings's statement came in answer to remarks by Commons (not Ross, as Steinbaum and Weisberger indicate) and was intended to suggest that farm interests had persistently failed to diagnose the economic reasons behind their difficulties in obtaining credit, which in turn undermined their political effectiveness. In fact, Giddings openly conceded the point raised much earlier by Ross that the farmer “does not get the same freight rates that other men get, and that he is taxed more than other men are taxed” (see American Economic Association 1893, 69–72). Thus even Steinbaum and Weisberger's primary archetype of the *laissez-faire* position is misidentified politically and misrepresented in his actual argument.

It is notable that Steinbaum and Weisberger attribute to Sumner and the *laissez-faire* theorist Herbert Spencer a teleological survival-of-the-fittest view that “the elite of the 1880s—nationally, racially, and individually—deserved to be where they were because in the competition to survive, nature had endowed them

6. Steinbaum and Weisberger label Giddings a “prominent conservative” (2017a, 1077), but Giddings's politics often tilted in radical directions, and his social views permitted ample room for state-directed poverty relief programs. Giddings was noted as a lecturer at the Socialist Party of America-aligned Rand School of Social Sciences (see National Civil Liberties Bureau 1919, 13), and on more than one occasion Giddings classified himself politically as an independent Socialist (Recchiuti 2007, 60). On this count it is curious that Steinbaum and Weisberger take no notice of Thomas Nixon Carver, who perhaps comes closest among major figures in that era to mixing some *laissez-faire* economic preferences with a Darwinian and eugenically-inclined social outlook. Carver was far from a doctrinaire follower of *laissez-faire*, however, and he showed enthusiasm for several hallmarks of progressive legislation, notably eugenically-motivated policy positions on both minimum wages and immigration. Carver is briefly discussed by Leonard (2016, 95–96). A more extensive literature on Carver's own progressive eugenic inclinations may be found in Fiorito and Orsi (2017), Peart and Levy (2013), and Levy, Peart, and Albert (2012, 7–21).

7. “Shall we give ourselves over to the belief that *laissez faire* is the last word of social science and the first law of ethics? Assuredly and most emphatically, no! Nothing in the conditions of progress as set forth in the foregoing study so much as hints at other than negative answers to these questions. On the contrary, if the law of evolution as exemplified in human society has been rightly understood, we shall be prepared to find certain very real limitations of the number and extent of the social, political, or industrial metamorphoses which, within a given period, can combine in genuine progress. We shall look to discover a growing necessity for integral social action. We shall expect to hear the ethical consciousness of humanity declaring that society is morally responsible for the costs of its existence” (Giddings 1893, 154).

with the sharpest teeth and claws and cunning” (Steinbaum and Weisberger 2017a, 1067). Never mind, for example, Sumner’s salvos against plutocracy, noted by Leonard (2016, 39–40). Here Steinbaum and Weisberger enlist the work of Richard Hofstadter (1944) to brand Sumner and Spencer as “social Darwinists.” But a growing body of literature (Bannister 1979; Marshall 1979; Bellomy 1984; Riggensbach 2011; Hayashi 2015; Zwolinski 2013; 2015) has challenged Hofstadter’s characterizations and the second-hand caricatures that dominate the Hofstadter-reliant depictions made by non-specialists in the history profession. That literature exposes the historical imprecision of the term “social Darwinism” and challenges its application to Spencer and Sumner. Both men were outspoken anti-imperialists and anti-colonialists, which is to say they rejected the most visible projects of their era to assert societal superiority by way of force. Sumner participated in the founding of the Anti-Imperialist League, and held comparatively liberal racial views for his time. While Ross, Commons, and Ely were advancing racial theories that classified non-white races as inferior beings requiring supervision and control, Sumner was condemning those theories:

There are plenty of people in the United States to-day who regard negroes as human beings, perhaps, but of a different order from white men, so that the ideas and social arrangements of white men cannot be applied to them with propriety. Others feel the same way about Indians. This attitude of mind, wherever you meet with it, is what causes tyranny and cruelty. (Sumner 1899, 176)

The works of Spencer and Sumner alike remain subject to criticism in adhering to suspect evolutionary conventions and terminology of their day, yet in prescriptive policy they tended to favor courses that deprecated state predation on the weak, the vulnerable, and the impoverished. And in that vein—a more nuanced take on Hofstadter—the leading recent scholarly reexamination comes from Leonard himself (Leonard 2009b; 2016, 98–100), offering an important insight that Steinbaum and Weisberger either overlook or do not grasp: Turn-of-the-century Darwinian social thought exhibited both individualist and collectivist strains, and it was especially the collectivist type that advanced state-sponsored experimentation with eugenics.⁸

8. It should be noted that Leonard’s focus in *Illiberal Reformers* is not merely scientism in the abstract but rather a historical instance of progressive scientism. This is not without reason, though neither is it a gratuitous slander against progressives (cf. Steinbaum and Weisberger 2017b). Rather, Leonard selects his historical subject matter precisely because its example illustrates the severity of scientific hubris when taken to its extreme. The sordid history of compulsory sterilization and eugenic planning illustrates that the processes of government, so readily embraced by the progressive reformers of the early twentieth century, are exceptionally dangerous executors of a purportedly scientific design.

So as is abundantly apparent in Leonard's text and, more importantly, the progressive economists' own published works, there was no parsing of "exclusionary" motives that separated the labor-minded progressives from more retrograde and aggressively racist variants of eugenics and white supremacy. Steinbaum and Weisberger simply invent such a separation, and then proceed to ignore the extensive documentation to the contrary provided by Leonard.

Steinbaum and Weisberger ultimately provide only leftist declamation

The parsing of motives that Steinbaum and Weisberger construct leads them further into troubling historiography, as they conclude their review in an exonerative push that extols the accomplishments of historical progressivism, stripped of the eugenics documented by Leonard.⁹ While crediting these progressives for defending the worthy cause of academic freedom, they point to the specific case of Ross's dismissal from his faculty position at Stanford University in 1900. This episode prompted an investigation of the university by the American Economic Association and widespread backlash within the academic community, noting that Ross had been fired over his political viewpoints. It also ranks among the formative events that prompted the creation of the American Association of University Professors in 1915. Steinbaum and Weisberger specifically credit it, along with a handful of other parallel episodes involving the same progressive circle of economists, for establishing the legacy of "academic freedom economists enjoy in modern research-oriented universities" (2017a, 1064).

The casual reader of their review might justly recognize Ross's martyrdom and the significance of the response it provoked. Steinbaum and Weisberger's telling of the event still contains a glaring omission. While Ross was undoubtedly fired for political reasons, the occasion of the political dispute that triggered it was an overtly eugenicist speech he gave to a white labor organizing meeting. As Ross himself described the event:

I tried to show that owing to its high Malthusian birth rate the Orient is the land of "cheap men," and that the coolie, though he cannot outdo the American, can under live him. I took the ground that the high standard of living that restrains multiplication in America will be imperiled if Orientals are allowed to

9. Steinbaum and Weisberger's ideologically motivated enthusiasm for their progressive-era subjects may be seen openly in their other works, calling upon the economics profession to resume the practice of radical political "advocacy" as exemplified by Richard T. Ely (see Steinbaum and Weisberger 2016).

pour into this country in great numbers before they have raised their standards of living and lowered their birth rate... In thus scientifically co-ordinating the birth rate with the intensity of the struggle for existence, I struck a new note in the discussion of Oriental immigration which, to quote one of the newspapers, “made a profound impression.” (Ross 1900a)

Ross’s speech angered the widow of the university’s founder, a railroad industrialist who employed Chinese immigrant laborers and who believed the remarks were intended to inflame racial violence against Asian immigrants—a reasonable fear in the heated racial climate of turn-of-the-century San Francisco. While Ross mounted a defense that stressed the intellectual objectives of his speech, its inflammatory connotations were unmistakable. His concluding line in the speech was this: “we are resolutely determined that California, this latest and loveliest seat of the Aryan race, shall not become, if we can help it, the theater of such a stern, wolfish struggle for existence as prevails throughout the Orient” (Ross 1900b). Even for highly regarded causes such as academic freedom, the legacy of progressivism cannot be so neatly separated from its own troubled eugenicist history as Steinbaum and Weisberger desire.

What has emerged by the end of Steinbaum and Weisberger’s review is less an exercise in history of economic thought than it is an indulgence in leftist ideological declamation. They gleefully call upon the “the positive and admirable achievements” that progressive economists “contributed to the strengthening and improvement of American democracy”—a list that includes income taxes, railroad regulation, food regulation, minimum wages, and the exemption of unions from antitrust laws. Steinbaum and Weisberger’s enthusiasm for these policies, including their modern derivatives, leaves them fundamentally unable to examine their own ideological priors regarding the carefully presented evidence in Leonard’s book. They view the suggestion of a parallel between the appeal of eugenics and other conceded forms of progressive “scientific administration” and planning as an affront to a favored ideological system, but without providing a reasoned response to the suggested parallel.

On this final point, the missed central argument of Leonard’s research emerges as its own caution against the very type of ideological declamation that Steinbaum and Weisberger offer. It is true that few modern progressives would espouse the outwardly racist labor arguments of Commons, Ely, and Ross as their own today let alone their accompanying eugenicist policies. But that was not Leonard’s investigative question. Rather, he sought to understand the hubris that led leading academics of that time in such a profoundly illiberal direction, stamping a great deal of horrendous nonsense with imprints of science, expertise, and prestige. The connection between modern progressivism and the dangers of wielding purported expertise for political design in other areas remains an open point of

inquiry that Leonard does not attempt to answer. It is nonetheless possible to see how simply raising the question of scientism becomes an intellectual stumbling block for the separate project of reinvigorating the politically radical and activism-laden approach to academic work, an approach exhibited by Ely, Commons, and Ross. And as Steinbaum and Weisberger have made abundantly clear, their own investment in that separate project is strong.

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Will the Real Specification Please Stand Up? A Comment on Andrew Bird and Stephen Karolyi

Alex Young¹

[LINK TO ABSTRACT](#)

The present paper concerns two versions of an article by Andrew Bird and Stephen Karolyi (henceforth BK) titled “Governance and Taxes: Evidence from Regression Discontinuity.” One version is a manuscript working paper, dated September 2015 (BK 2015); the other is the piece as published in *The Accounting Review* (BK 2017). Between the two versions, the numbers in all 11 tables stayed exactly the same (to three decimal places), so it is clear that the specifications generating the results were the same. But the description of the specifications changed. The 2015 working paper version says that, for their main results, the authors used one method of ranking firms by market capitalization, while the 2017 published version says that they used another method.

Here I respectfully press the issue of whether the 2017 description in *The Accounting Review* is accurate. If I were able to see, without any problem, that the 2017 description simply corrects some confusion in the earlier version, I would be glad of the resolution. Unfortunately, I see problems: Replication along the lines of the 2015 description closely replicates the paper’s results, whereas replication along the lines of the 2017 published description does not.

To provide some background, I recount some personal experience. In October 2015, I attended the UNC/Duke Fall Camp conference for accounting at Chapel Hill, North Carolina, where Professor Bird presented the 2015 version

1. North Dakota State University, Fargo, ND 58108. I thank Wei Wei for helpful comments and Sergio Correia, Scott Dyreng, and Bill Mayew for helpful comments in an earlier version. All remaining errors are my own.

of the paper. I approached Professor Bird and raised some concerns about the specification used in the paper. In January 2017, the paper was published in *The Accounting Review*, and I noticed that the description of the specifications had changed from the 2015 version, while the numbers stayed the same in all 11 tables. On 18 April 2017 I emailed Professor Bird, reminding him of our conversation in October 2015, and requested that they share their data and code. On 20 April 2017 Professor Karolyi responded with a brief message that ignored my request. On 5 May 2017 I explained my concerns in an email to Professor Edward Maydew (the editor who was assigned to the BK paper at *The Accounting Review*). On 9 May 2017 Professor Maydew emailed me to say that he had forwarded my message to the journal's Senior Editor. After waiting for six months with no reply, I contacted *Econ Journal Watch* on 9 November 2017. On 15 November 2017 the *EJW* chief editor, Daniel Klein, emailed Professors Bird and Karolyi requesting that they share their data and code. The next day they responded, without addressing the request. On 21 November 2017, Klein replied and repeated the request; later that day they replied, declining the request. Meanwhile, after my also having sent in November 2017 follow-up emails to Professor Mary E. Barth, the current Senior Editor of *The Accounting Review*, Professor Barth emailed me on 1 December 2017 to say that *The Accounting Review* was commencing its process for the investigation of possible misconduct.

I would be pleased to discover that there was no misconduct, that my concern was misplaced. If Professors Bird and Karolyi make public the data and code, everything should become clear. I press the issue here from a sense of duty to scholarship in general and to the accounting and finance research communities in particular.

In this article, I proceed in the following steps: First, I explain the two different ways of ranking firms by market capitalization. Next, I turn to the textual descriptions of the specifications in the two versions for the BK paper. Next, I turn to replicating, trying to follow from scratch the descriptions provided. I attempt to replicate BK's results by following the 2017 version's description, but that specification delivers a statistically insignificant null result—whereas when I follow the 2015 description, I am able to replicate the main results very closely. Additional analysis further supports the conclusion that the 2015 version describes the main analysis accurately, while the published version misstates it. I conclude by demonstrating that the main result, when understood on the 2015 description, is spurious: When I conduct a placebo test by lagging the dependent variable by one year, holding all else equal, I find that the 'effect' was already present *before* the 'cause.' On the 2015 description, therefore, the main result is a manifestation of selection bias and has no causal interpretation. That problem is what I brought to Professor Bird's attention when I approached him at the conference at Chapel Hill

in 2015.

Background regarding the two methods of ranking

The Russell 1000 and Russell 2000 are U.S. stock market indices under the purview of the company now called FTSE Russell but which I will here refer to as simply ‘Russell.’ The Russell 1000 contains the one thousand largest US stocks as of the end of May in each year, while the Russell 2000 contains the *next* largest two thousand U.S. stocks. ‘Size’ in this context refers to market capitalization.

The appeal of the Russell 1000 and 2000 indices in accounting and finance research is that the rules-based construction of the indices seemingly lends itself to analysis with a regression-discontinuity design. Intuitively, we would not expect significant differences on average between a firm ranked 999 (assigned to the Russell 1000) and a firm ranked 1001 (assigned to the Russell 2000). However, within each index, firms are weighted by their market capitalization relative to the total market capitalization of that index. Since the firm ranked 1001 is the largest in the Russell 2000, it will have a much larger index weight than the firm ranked 999. Small differences in market capitalization at the end of May thus potentially affect capital markets.

Russell uses a proprietary measure of market capitalization to rank all three thousand stocks at the end of May each year, a measure that, alas, is not available to researchers (Chang et al. 2015, 217). As a result, it is not possible to know *exactly* which firm was 999 and which was 1001 at the end of May in each year. Instead, Russell provides index weights at the end of June to researchers. Researchers must then attempt either to reproduce Russell’s end-of-May rankings using publicly available data, or to reverse-engineer the proprietary end-of-May rankings using the Russell-provided June index weights.

For the first method, the most commonly used database is CRSP (the Center for Research in Security Prices). Price and shares outstanding, each adjusted by cumulative factors, can be multiplied together to determine market capitalization, and then all three thousand stocks in the Russell 1000 and 2000 can be ranked on market capitalization. These CRSP rankings (supposedly the one used in the main specification of BK 2017) will not perfectly reproduce the actual Russell 1000 and Russell 2000 index constituents (Chang et al. 2015, 230).

Alternatively, Russell provides researchers with the Russell 1000 and 2000 index weights measured at the end of June. A stock’s weight is the proportion of the stock’s adjusted market capitalization to its actual index’s total adjusted market

capitalization. Note the word ‘adjusted’: the weights are calculated from a *different* market capitalization than the proprietary one Russell uses to rank firms at the end of May. Specifically, the adjustments remove shares that Russell considers to be unavailable for purchase by the public.

The Russell-provided index weights can be used to rank the Russell 1000 and 2000 stocks. Since each index is separately value weighted, the weights are ranked separately by index and then combined such that the largest stock in the Russell 2000 is ranked 1001 overall out of 3000. A problem with the Russell-provided June rankings is that because of stock market activity in the month of June, these rankings do not necessarily reverse-engineer the proprietary rankings Russell uses at the end of May each year (Chang et al. 2015, 222). This is the ranking method that is said to be used, and which I believe was used, in BK 2015.

Textual descriptions: BK 2015 versus BK 2017

In BK 2015, the authors began their data description as follows (in block quotations the boldfacing is added by me):

Two approaches have been used in the literature to identify these index membership lists. **First**, because the Russell 1000 and 2000 indexes are explicitly determined by market capitalization rank as of the last trading day in May each year, the index memberships can be constructed **using CRSP data**. **Second, Russell provides** data for academic use. Because Crane et al. (2014) argue that predicting index inclusion for a fixed sample size can induce a bias from index misclassifications, **we use the latter approach in our main results**. We use index membership lists generated from CRSP (for the subset of reconstitutions covered by the Russell-provided data) in robustness checks of our main results. (BK 2015, 8)

In BK 2017, the authors stated that they made the opposite choice for their main specification:

Two approaches have been used in the literature to identify these index membership lists. **First**, because the Russell 1000 and 2000 indexes are explicitly determined by market capitalization rank as of the last trading day in May each year, the index memberships can be constructed **using CRSP data; we use these rankings in our main specifications**. **Second, Russell provides** index membership data for academic use, and we use these in **robustness checks** of our main findings. (BK 2017, 32)

A few pages later, a similar change was made. In BK 2015 appears the following:

It is important that we acknowledge the methodological differences among the other papers that exploit the Russell index reconstitution setting for identification. **In the results presented here** we follow Crane et al. (2014) and impose a k -order polynomial control function on the market capitalization **ranks provided and used by Russell**, but, in results reported in Table 7, we confirm that our main findings hold if we **alternatively** impose a k -order polynomial control function on the market capitalization ranks that we calculate **using May 31 closing prices from CRSP** as in Appel et al. (2015). (BK 2015, 11)²

While in BK 2017:

It is important that we acknowledge the methodological differences among the other papers that exploit the Russell index reconstitution setting for identification. **In the results presented here** we follow Crane et al. (2016) and impose a k -order polynomial control function on the market capitalization ranks **based on May 31 closing prices from CRSP**, but, in results reported in Table 7, we confirm that our main findings hold if we **alternatively** impose a k -order polynomial control function on **Russell index ranks, which include the effects of Russell’s proprietary float adjustment**. (BK 2017, 34)

To summarize, BK made the following choices for the older 2015 version and then reversed them for the 2017 published version:

	BK 2015	BK 2017
Main result rankings	Russell-provided	CRSP-calculated
Alternative/robustness check rankings	CRSP-calculated	Russell-provided

Thus, if we compare the tables from the two versions, at the very least, we should see slightly different numbers for the estimated coefficients, standard errors, etc. But row for row, column for column, the numbers for the estimated coefficients, standard errors, and R-squareds are all exactly the same between BK 2015 and BK 2017 to three decimal places in all 11 tables.³

The exact sameness cannot be explained by claiming that the Russell-provided and CRSP-constructed rankings are exactly the same. As shown in table 7 of both versions, regardless of which ranking is claimed as “baseline” or “alterna-

2. The “Crane et al. (2014)” cited by BK (2015) is a working-paper version of Crane et al. (2016), and the “Appel et al. (2015)” is a working-paper version of Appel et al. (2016).

3. The only exception is that column 4 in table 10 of BK 2015 version was not included in table 10 of BK 2017. However, the remaining columns in table 10 between the two versions all still have exactly the same numbers for the coefficient estimates, standard errors, and R-squareds. Therefore, the same specification was used to produce table 10 in both versions.

tive,” the coefficient estimates are different (-0.205 vs. -0.177). Furthermore, the identical numbers in both versions of table 7 cannot be explained as a typo because the remaining regression tables also all report identical numbers in both versions. Hence, one of the two versions of the paper does not describe the main specification accurately.

Replication

In this section, I attempt to determine which ranking was used to produce the main results in BK through replication. Following Colin Camerer et al. (2016, 1433–1434), I choose “the most important statistically significant finding, as emphasized by the authors” for replication. As BK state,

To start, we investigate tax avoidance using cash effective tax rates because, at least in the long run, what should concern shareholders is the cash flow associated with the firm rather than the reported book income. ... for comparability with other studies and to better understand the objectives of institutional investors, we also investigate the effect of index reconstitutions on book effective tax rates. (BK 2017, 37)

I accordingly attempt to replicate the results with cash and book (GAAP) effective tax rates (ETRs). The text underneath my Tables 1 and 2 describe the sample period, variables, and empirical specifications, which all follow BK.

Using the Russell-provided ranks, per BK 2015, I am able to closely reproduce the main results of BK both in terms of magnitude and statistical significance. Column 1 of Table 1 shows that with cash effective tax rates, the coefficient estimate on instrumented institutional ownership is -0.267 (significant at the 1 percent level). That result is consistent with BK, who state in the published article that “for a 1 percentage point increase in institutional ownership due to inclusion in the Russell 2000 around the threshold, a firm’s cash effective tax rate falls by between 0.2 and 0.3 percentage points” (BK 2017, 38).⁴

Similarly, column 2 of Table 1 shows that with GAAP effective tax rates, the coefficient estimate on instrumented institutional ownership is -0.159 (significant at the 1 percent level). That too is consistent with BK, who state that “an increase in institutional ownership of 1 percentage point results in a decrease of GAAP effective tax rates of 0.16 percentage points” (2017, 38; 2015, 17). I reiterate that

4. An all-but-identical statement appears in the working paper: “for a one percentage point increase in institutional ownership caused by inclusion in the Russell 2000, a firm’s cash effective tax rate falls by between 0.2 and 0.3 percentage points” (BK 2015, 16).

by using the Russell-provided ranks, following BK 2015, I am able to very closely reproduce the main results of BK.

TABLE 1.

	(1)	(2)	(3)	(4)
	Cash ETR	GAAP ETR	Lag Cash ETR	Lag GAAP ETR
IO	-0.267*** (0.069)	-0.159*** (0.046)	-0.252*** (0.072)	-0.229*** (0.051)
Constant	0.407*** (0.041)	0.424*** (0.027)	0.401*** (0.042)	0.454*** (0.030)
Year Fixed Effects	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Observations	24,404	24,404	24,718	24,718

Notes: This table reports the results of the estimating the following with 2SLS. The outcome variables are (lagged) cash and GAAP effective tax rates (ETRs) in columns 1 and 2 (3 and 4), defined as cash taxes paid (total income tax expense) divided by pre-tax book income minus special items. IO is the total institutional ownership of firm i in September of year t , D is an indicator equal to 1 (0) if firm i in year t is a member of the Russell 2000 (1000), and R is the rank of stock i in year t relative to the smallest firm in the Russell 1000 based on the Russell-provided June rank. Standard errors (in parentheses) are clustered by firm. The sample period is 1996–2006. $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

$$IO_{i,t} = \alpha + \tau D_{i,t} + \delta_j R_{i,t} + \gamma_j D_{i,t} R_{i,t} + v_t + \xi_{i,t}$$

$$Y_{i,t} = \beta_0 + \beta_1 \widehat{IO}_{i,t} + \varphi_j R_{i,t} + \lambda_j D_{i,t} R_{i,t} + v_t + \varepsilon_{i,t}$$

By contrast, my analysis indicates that the main results of BK do not hold with the CRSP-constructed ranks, which BK 2017 claims to use in the main specification. In columns 1 and 2 of Table 2, the standard errors for the IO variable are very large relative to the coefficient estimates, and so the results are not statistically significant at conventional levels. For example, the 95% confidence interval for the coefficient on instrumented institutional ownership in column 1 is (-1.07, +0.31). I stress that the only difference in producing Table 2 from Table 1 was the choice of ranking data.

Michael Clemens has argued persuasively that “the author of a replication test bears the burden of showing that its estimates come from materially the same sampling distribution” (2017, 327). I have shown in Table 1 that I am able to closely reproduce the main results of BK by following the empirical specification described in BK 2015 version with Russell-provided ranks. Since the only difference in Tables 1 and 2 is the ranking, I therefore need to show that the CRSP-constructed ranks I use in Table 2 exhibit properties that they are expected to exhibit.

As the CRSP-constructed ranks are a rank variable of market capitalization at the end of May from CRSP, by construction, a graph of market capitalization on the y -axis against its ranking on the x -axis should be continuous and monotonically

decreasing (rank 1 is the largest). Figure 1 shows that the CRSP-constructed ranks exhibit this property.

TABLE 2.

	(1)	(2)	(3)	(4)
	Cash ETR	GAAP ETR	Lag Cash ETR	Lag GAAP ETR
IO	-0.382 (0.353)	-0.324 (0.248)	-0.341 (0.300)	-0.501* (0.257)
Constant	0.471** (0.199)	0.517*** (0.140)	0.450*** (0.166)	0.602*** (0.142)
Year Fixed Effects	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Observations	24,404	24,404	24,718	24,718

Notes: This table reports the results of the estimating the following with 2SLS. The outcome variables are (lagged) cash and GAAP effective tax rates (ETRs) in columns 1 and 2 (3 and 4), defined as cash taxes paid (total income tax expense) divided by pre-tax book income minus special items. IO is the total institutional ownership of firm i in September of year t , D is an indicator equal to 1 (0) if firm i in year t is a member of the Russell 2000 (1000), and R is the rank of stock i in year t relative to the smallest firm in the Russell 1000 based on the researcher-constructed rankings of CRSP market capitalization in May. Standard errors (in parentheses) are clustered by firm. The sample period is 1996–2006. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

$$IO_{i,t} = \alpha + \tau D_{i,t} + \delta_j R_{i,t} + \gamma_j D_{i,t} R_{i,t} + v_t + \xi_{i,t}$$

$$Y_{i,t} = \beta_0 + \beta_1 \widehat{IO}_{i,t} + \varphi_j R_{i,t} + \lambda_j D_{i,t} R_{i,t} + v_t + \varepsilon_{i,t}$$

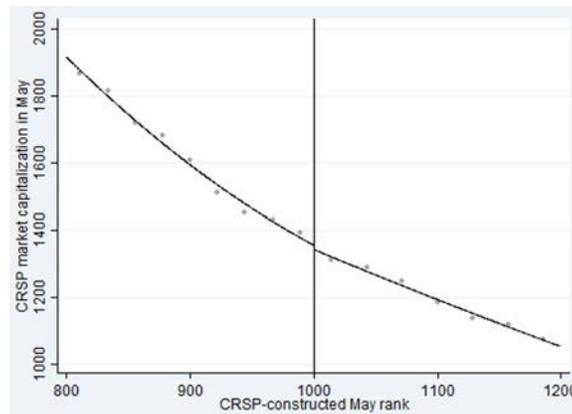


Figure 1. The figure plots market capitalization at the end of May from CRSP against the researcher-constructed ranking of May market capitalization from CRSP, for firms in the 800 to 1200 ranks. The sample period is 1996–2006. Only firms within 200 ranks of the 1000 cutoff by researcher-constructed CRSP rankings are included (to the left/right). The dots (or ‘bins’) represent averages of the y -axis variable over various ranges of the x -axis variable throughout the sample period. The black curves are quadratic polynomial estimates for how the y -axis variable varies at the cutoff with the x -axis variable.

Hence, I submit that I have met the standard in Clemens (2017, 327) to bear the burden of showing that my estimates come from “materially the same sampling distribution,” and I conclude that the choice of ranking matters: with the CRSP-constructed ranks, as claimed in BK 2017, the main result is a null result. Only by following the BK 2015 description am I able to replicate the main results.

Additional evidence as to which specification yielded BK’s main results

My replication suggests that BK’s main specification is accurately described in BK 2015 and misstated in BK 2017. Nonetheless, it is possible that I have made a mistake, or that I have misunderstood BK.

Additional evidence that BK 2015 accurately describes the main specification can be found in two other, related papers. Shuping Chen and coauthors (2018) and Mozaffar Khan, Suraj Srinivasan, and Liang Tan (2017) also use the Russell 1000/2000 setting in regression discontinuity designs to investigate the same question as BK: How does institutional ownership affect tax avoidance? However, unlike BK 2017, both Chen et al. (2018) and Khan et al. (2017) report that they use the Russell-provided rankings in their main specifications: The former write that they “define *Rank* using the actual index assignment based on June weights provided by Russell Investments” (Chen et al. 2018, 12), while the latter define the relative distance (i.e., the ranking centered at 1000) “of a Russell 1000 firm to the cutoff firm (the 1,000th firm) each year based on June weights” (Khan et al. 2017, 120). While BK 2017 do not use the term “June weights,” they clarify in their companion paper (Bird and Karolyi 2016, 3250) that the Russell-provided data is as of the “end of June.” That is, their Russell-provided rankings are consistent with those used by Chen et al. (2018) and Khan et al. (2017).

Given that:

- two contemporaneous papers use Russell-provided rankings (Chen et al. 2018, Khan et al. 2017),
- BK 2015 claimed to use Russell-provided rankings in the main specification,
- the numbers in all 11 tables of BK 2015 are identical to those of BK 2017, which instead claims to use CRSP-constructed rankings in the main specification, and
- Chen et al. (2018), Khan et al. (2017), and BK 2017 all conclude that an increase in institutional ownership increases tax avoidance,

the simplest explanation for the irregularity of identical numbers yet different specifications between BK 2015 and BK 2017 is the conclusion from my replication: BK 2015 accurately describes the research design, while BK 2017 misstates it.

The main result is spurious

Although my replication suggests that there is a misstatement in BK 2017, the results with Russell-provided rankings nevertheless *seem* very robust: Chen et al. (2018) and Khan et al. (2017) also use Russell-provided rankings, find similar results, and reach similar conclusions as BK. Isn't there a finding here that advances the literature on governance and tax avoidance?

Now I demonstrate that the main result in BK's work (on my conclusion that it is accurately described with Russell-provided rankings) is spurious. Columns 3 and 4 of Table 1 report the results from a placebo test with *lagged* effective tax rates as the pseudo-'outcome.' Although BK do not perform this test in their paper, they cite David Lee and Thomas Lemieux (2010), who state the intuition behind this test:

Intuitively, if the [regression discontinuity] design is valid, we know that the treatment variable cannot influence variables determined prior to the realization of the assignment variable and treatment assignment; if we observe it does, something is wrong in the design. (Lee and Lemieux 2010, 330)

That is, under this placebo test, there should be no evidence that *this year's* instrumented institutional ownership affects *last year's* tax planning. But the coefficients on instrumented institutional ownership remain negative and statistically significant at the one-percent level in columns 3 and 4 of Table 1. For example, column 3 suggests that a one percentage-point increase in instrumented institutional ownership 'causes' a decrease in *last year's* cash effective tax rates by 0.252 percentage points.⁵

It would be a stretch to think that institutional ownership this year can affect tax planning decisions made in the previous year. Since the only change made for the placebo test is lagging the ETRs, to re-quote Lee and Lemieux, "something is wrong in the design."⁶ But what is wrong?

5. By contrast, when CRSP-constructed rankings are used in my Table 2, this placebo test passes, as seen in columns 3 and 4. However, as stated previously, with CRSP-constructed rankings, the main result is a *null result*: the results in columns 1 and 2 are very imprecisely estimated with large standard errors.

6. In email correspondence (available upon request), Professor Karolyi argued that a failure of this placebo test does not necessarily imply that the main result of BK is spurious partially because of measurement

Recall that the appeal of the Russell 1000/2000 setting in accounting and finance research is that the Russell 1000 and 2000 indices are constructed using a cutoff or threshold rule (Chang et al. 2015, 217):

- if a firm's market capitalization at the end of May is ranked 1 (largest) through 1000, it is assigned to the Russell 1000;
- if a firm's market capitalization at the end of May is ranked 1001 through 3000, it is assigned to the Russell 2000.

Thus, around the cutoff separating the Russell 1000 from the Russell 2000, membership in the one rather than the other is a close call (Chang et al. 2015, 218), and that would suggest that firms at the bottom of the Russell 1000 are a natural control group for the firms at the top of the Russell 2000.

As described previously, Figure 1 shows that the CRSP end-of-May market capitalization on the y -axis is smoothly and continuously decreasing with its rankings, as we would expect. That is, firms on the left of the cutoff *could plausibly have become* Russell 2000 firms (on the right of the cutoff) and hence *are an appropriate* control group.

Figure 2 replaces the x -axis with the Russell-provided June rankings, all else being unchanged. It is clear that CRSP May market capitalization is *discontinuous* at the cutoff with the Russell-provided June rankings. That is, with Russell-provided rankings, the firms on the left of the cutoff were *far too large* to have ever become Russell 2000 firms (on the right of the cutoff); hence, the firms on the left are *not an* appropriate control group for the firms on the right.

Note that both Figures 1 and 2 are 'zoomed in' at the Russell 1000/2000 cutoff and only include firms within 200 ranks on either side of the vertical line. If CRSP market capitalization in May were instead graphed against either ranking across *all three thousand* firms in the Russell 1000 and 2000, as shown in figures 3 and 4, we would not be able to see the discontinuity in market capitalization at the cutoff. The largest firms in the Russell 1000 (on the leftmost side) distort the y -axis scale in Figures 3 and 4 such that the two figures are almost indistinguishable, and market capitalization erroneously appears to be continuously decreasing. Only by 'zooming in' do we see that with the Russell-provided June rankings, the firms just to the left of the 1000/2000 cutoff were far too large to have ever been on the right of the cutoff.

error in fiscal quarter end dates. However, the placebo test lags the effective tax rates (ETRs), which are based on annual Compustat data (BK 2017, 34). The placebo test *does not* lag the quarterly institutional ownership measures. Therefore, measurement error in fiscal quarter end dates cannot explain why the placebo test fails with lagged annual ETRs.

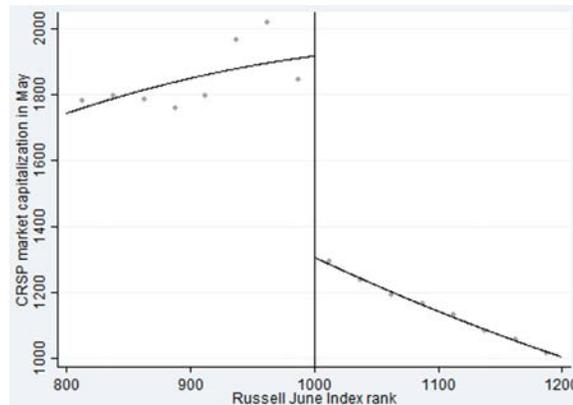


Figure 2. The figure plots market capitalization at the end of May from CRSP against the Russell-provided (end-of-June) rankings, for firms in the 800 to 1200 ranks. The sample period is 1996–2006. Only firms within 200 ranks of the 1000 cutoff by Russell-provided rankings are included (to the left/right). The dots (or ‘bins’) represent averages of the y -axis variable over various ranges of the x -axis variable throughout the sample period. The black curves are quadratic polynomial estimates for how the y -axis variable varies at the cutoff with the x -axis variable.

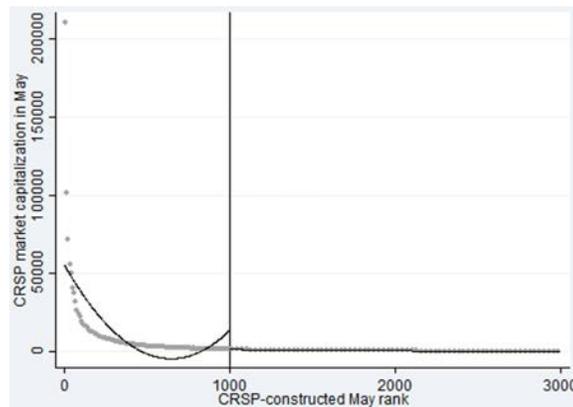


Figure 3. The figure plots market capitalization at the end of May from CRSP against the researcher-constructed ranking of May market capitalization from CRSP. The sample period is 1996–2006. The dots (or ‘bins’) represent averages of the y -axis variable over various ranges of the x -axis variable throughout the sample period. The black curves are quadratic polynomial estimates for how the y -axis variable varies at the cutoff with the x -axis variable.

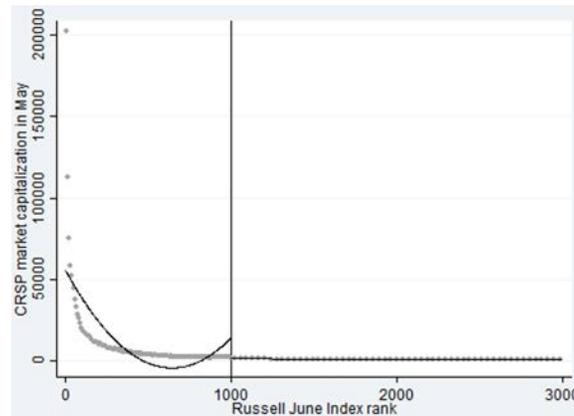


Figure 4. The figure plots market capitalization at the end of May from CRSP against the Russell-provided (end-of-June) rankings. The sample period is 1996–2006. The dots (or ‘bins’) represent averages of the y -axis variable over various ranges of the x -axis variable throughout the sample period. The black curves are quadratic polynomial estimates for how the y -axis variable varies at the cutoff with the x -axis variable.

Thus, by using the Russell-provided June rankings, the empirical analysis is contaminated by selection bias: the firms on either side of the Russell 1000/2000 cutoff were *ex ante* already different from each other. Hence, not only did BK misstate their main analysis in BK 2017, but when the main specification is described accurately with Russell-provided rankings, the main result is also spurious: the ‘effect’ was already present *before* the ‘cause.’⁷

Appendix

Data and code used in this research can be downloaded from the journal website ([link](#)) or from a page that I maintain ([link](#)).

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7. Wei and Young (2017) document and explain the selection bias problem more generally for the literature that uses the Russell-provided June rankings.

Public Disclosure? *Review of Financial Studies* 29(12): 3245–3277.

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Response to Alex Young

Andrew Bird¹ and Stephen A. Karolyi²

[LINK TO ABSTRACT](#)

First, we are excited to see that, like Mozaffar Khan, Suraj Srinivasan, and Liang Tan (2017) and Shuping Chen, Ying Huang, Ningzhong Li, and Terry Shevlin (2018), Alex Young has successfully replicated our main findings on the effect of institutional ownership on tax avoidance behavior. We are thrilled that many interested researchers have pursued follow-up studies to ours.

Second, in light of Alex's accusation, we have reviewed the series of drafts that we submitted during the publication process at *The Accounting Review* during 2015 and 2016. In doing so, we identified a potentially confusing description of our methodology, which was introduced during the final iteration of copy editing at *The Accounting Review*. This description conflicted with our correct and clear description of our methodology elsewhere in the published version of the paper. Nevertheless, this error apparently created confusion about the relationship between tabulated estimates from a 2015 working paper version of our paper and the 2017 published version. The methodology did not change, and, thus, the tabulated estimates did not change either.

In an attempt to mitigate future confusion for especially interested readers of our paper, we have requested to make a clarification in *The Accounting Review*.

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BIRD AND KAROLYI

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The Impact of Right-to-Carry Laws: A Critique of the 2014 Version of Aneja, Donohue, and Zhang

Carlisle E. Moody¹ and Thomas B. Marvell

[LINK TO ABSTRACT](#)

In 2005 the National Research Council (NRC) analyzed right-to-carry (RTC) laws, also known as shall-issue laws, which relax the requirements necessary to acquire a permit to carry a concealed weapon. The NRC essentially concluded that the data were not sufficient to determine whether RTC laws increased or decreased crime. However, a recent working paper from Abhay Aneja, John J. Donohue, and Alexandria Zhang (hereafter “ADZ”) re-evaluates the NRC analysis and purports to find evidence that RTC laws increase murder, rape, robbery, and assault (ADZ 2014). ADZ’s paper, issued by the National Bureau of Economic Research, has received substantial attention. In this article we re-analyze that paper from ADZ, using ADZ’s own data and regression models, and contend that such conclusions are misleading.

ADZ have issued four versions of their paper “The Impact of Right-to-Carry Laws and the NRC Report: Lessons for the Empirical Evaluation of Law and Policy” (ADZ 2010; 2011; 2012; 2014). The first version (ADZ 2010) was itself an extensively revised adaptation of Donohue’s “The Impact of Concealed-Carry Laws” (2003). The first version and the latest two versions are working-paper versions, the latest two being issued by the National Bureau of Economic Research (NBER). As of the present writing (8 August 2017), the working-paper abstract

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page of the latest version, though prominently displaying in boldface, “Issued in August 2012,” inconspicuously shows toward the bottom, “This paper was revised on November 7, 2014” (ADZ 2014). Here we address that latest incarnation of the ADZ paper.

ADZ make a number of choices that generate results that are then highlighted in the paper (by being featured in the abstract, for example). But those choices are sometimes unjustifiable, and ADZ sometimes oversell their results. Our criticisms of their highlighted results are many. Most importantly, ADZ use only part of the available data, arguing that a regime change requires that decades of data be thrown out—yet they do not test for the existence of such a regime change. Here we perform tests and find little evidence that such a regime change took place. Additionally, we note that ADZ compare states that have recently adopted laws with states that already had laws, that their standard errors are biased downward, that they exclude highly significant individual state trends, that they run multiple tests without adjusting significance levels, and that they fail to report significance tests on pre- and post-law dummy coefficients. We also remark on a related 2017 working paper (Donohue et al. 2017), pointing out that its results depend on excluding state trends, a decision we criticized here.

In the abstract of their paper, ADZ feature certain results. The following quotation comes from the abstract’s two concluding paragraphs:

Across the basic seven Index I crime categories, the strongest evidence of a statistically significant effect would be for aggravated assault, with 11 of 28 estimates suggesting that RTC laws increase this crime at the .10 confidence level. An omitted variable bias test on our preferred Table 8a results suggests that our estimated 8 percent increase in aggravated assaults from RTC laws may understate the true harmful impact of RTC laws on aggravated assault, which may explain why this finding is only significant at the .10 level in many of our models. Our analysis of the year-by-year impact of RTC laws also suggests that RTC laws increase aggravated assaults. Our analysis of admittedly imperfect gun aggravated assaults provides suggestive evidence that RTC laws may be associated with large increases in this crime, perhaps increasing such gun assaults by almost 33 percent.

In addition to aggravated assault, the most plausible state models conducted over the entire 1979–2010 period provide evidence that RTC laws increase rape and robbery (but usually only at the .10 level). In contrast, for the period from 1999–2010 (which seeks to remove the confounding influence of the crack cocaine epidemic), the preferred state model (for those who accept the Wolfers proposition that one should not control for state trends) yields statistically significant evidence for only one crime—suggesting that RTC laws increase the rate of murder at the .05 significance level. (ADZ 2014, abs.)

Research findings pertaining to a heated, highly politicized issue like gun control quickly spread to public discourse, partisan debate, and court cases.² Particular results, generated from an untold number of trials and variations, get latched onto as debating points. For researchers to pretend that they can fully separate their own policy judgments from their research efforts would be an affectation. We therefore disclose that one of the authors of the present paper is generally libertarian and the other is agnostic with respect to policy questions in general. We are both in favor of good methodology. The research presented here is not the product of any sponsorship or funded research project.

In this paper we do not treat a 0.10 p-value as significant. We have noted the problem of the untold number of variations that researchers might perform. In what follows, when we say “highly significant” we mean a 0.01 p-value criterion, and “significant” a 0.05 p-value criterion.

Overview

The chief criticisms developed here are as follows. (1) The finding that RTC laws increase murder is based on a greatly truncated sample, and ADZ justify that truncation on the basis of an incorrect claim: that the 1984–1990 crack epidemic is a regime change that significantly affects the evaluation of RTC laws with respect to violent crime. (2) Furthermore, the finding that RTC laws increase murder is based on comparisons between states that recently adopted laws with states that already had such laws, as opposed to the comparison to states that do not have the laws. (3) ADZ claim that finding is statistically significant, but we find that their standard errors and t-ratios are incorrect and that the finding is not significant. (4) ADZ ignore results based on county-level data, which do not support their hypothesis that RTC laws increase crime. (5) They report the results of their model with “preferred” controls with and without individual state trends. However, since the state trends are highly significant ($p < .0001$) and are highly correlated with both the dependent variable and the RTC dummy and post-law trend, the results without the state trends may suffer from omitted variable bias. (6) They estimate the same coefficients hundreds of times, yet do not make adjustments to the p-values indicating significance. (7) They present results from a set of pre- and post-law dummy variables without disclosing the associated significance levels.

2. Notably, Donohue (2003) was cited in *Peruta v. County of San Diego* (2016, 944).

ADZ's model

ADZ construct a fixed-effects model with unit (states or counties) and time (year) dummy variables:

$$y_{it} = \alpha_i + \gamma_t + \delta t + \beta_d \text{RTC}_{it} + \beta_p \text{aftr}_{it} + X_{it}b + \varepsilon_{it} \quad (1)$$

where i and t refer to the state and year respectively; α_i is the state fixed effect and γ_t is the year fixed effect. The overall time trend is δt and X_{it} is a matrix of observations on the control variables. The two policy variables are: RTC_{it} , an indicator variable that equals the fraction of the year that the law is in effect the first year the law is implemented and equals one for each full year thereafter; and aftr_{it} , the post-law trend which is zero up to the year the law is imposed and equal to the number of post-passage years, adjusted by the fraction the law was in effect during the first year, for the remaining years. The control variables change according to the purpose of the analysis, but the most frequently employed are the “ADZ Preferred Controls” consisting of the following: prison population and police officers, both per capita and lagged; personal income, unemployment compensation, income maintenance expenditures, and pension payments, all per capita and in real dollars; the unemployment rate, the poverty rate, population density, and six demographic variables (percent black males and percent white males age 10–19, 20–29, 30–39). The regression is weighted by population, and it is estimated with and without state-specific trends. The standard errors are clustered by state to reduce the effect of serial correlation on the standard errors and t-ratios.

Do RTC laws significantly increase murder?

Even though the ADZ dataset extends from 1977–2010, for one set of analyses ADZ restrict the sample to 1999–2010, thus limiting the evaluation to the eight states that adopted RTC laws in that period: Colorado (2003), Kansas (2007), Michigan (2001), Minnesota (2003), Missouri (2004), Nebraska (2007), New Mexico (2004), and Ohio (2004). They argue that this limitation is necessary to avoid pernicious confounding effects of the 1984–1990 crack epidemic. It is, as reported in ADZ's abstract quoted above, only on the basis of the 1999–2010 sample that their claim “RTC laws increase the rate of murder at the .05 significance level” is made (ADZ 2014, abs.).

We find three reasons to cast doubt on the substance of ADZ's finding here.

Obviously, and foremost, reducing the sample from 34 years to 12 years limits the power of the analysis—and a careful investigation, presented in the next section of the paper, finds that the crack epidemic is not a valid reason for this data reduction. The two other reasons can be presented here briefly.

First, the comparison between the control and treated states is perhaps quite muddled because 39 states have RTC laws in some of the period 1977–2010, and so the control group for 1999–2010 consists of 31 states *with* RTC laws (the pre-1999 adopters)³ plus ten states *without* RTC laws.

Second, by starting the analysis in 1999 and using only eight states for their dummy and spline variables, ADZ cause the clustered standard errors to be underestimated. ADZ's results with respect to the murder equation are presented in their Table 11a (p. 55) in which they report a positive and apparently highly significant break in the trend ($= 0.014$, $t=2.68$, $p=0.01$). While ADZ (2014, 32–35) had earlier in the paper purported to demonstrate, using the placebo law method, that clustering standard errors can resolve most of a concern that too many significant results will be obtained,⁴ for that demonstration ADZ had used data for the longer 1977–2006 time period, which is notable because—as Timothy Conley and Christopher Taber (2011, 122, Table 3) show—clustered standard errors are seriously biased downward when there are few policy changes. To address our concern, we apply the placebo law technique, suggested by Marianne Bertrand, Esther Duflo, and Sendhil Mullainathan (2004) and Eric Helland and Alexander Tabarrok (2004), in the case of the model reported in ADZ Table 11a, using ADZ's data and their model with “preferred” controls. For each iteration, we randomly select eight states, and for each state we generate a random year between 1999 and 2009. Given the state and year, we construct a RTC dummy and post-law trend. We then run the regression corresponding to the ADZ model with “preferred” controls. We repeat this process 9999 times. Since we know that ‘laws’ generated for random states and random years will have a true coefficient equal to zero, we then have 9999 observations on the distribution of the coefficients on the RTC dummy and the post-law trend which is centered on the true value of zero. With these data we calculate the values of the corresponding t-statistics and determine the 95th percentile values for the t-ratios corresponding to the RTC dummy and post-law trend. The result is that the five-percent critical value, two-tailed, for the post-law trend is 2.79. This critical value is greater than the ADZ t-ratio of 2.68 and thus indicates that the post-law trend is not significant at the .05 level. (The

3. This count includes five states (Alabama, Connecticut, New Hampshire, Vermont, and Washington) that have had RTC laws or their equivalent since before 1977, the first year in the ADZ state data set.

4. ADZ used the placebo law technique only to show that the usual ordinary least squares standard errors, used by Lott and Mustard (1997), are underestimated in the presence of serial correlation and that clustering corrects this problem.

corresponding five-percent critical value for the RTC dummy is 2.76, which is greater than the ADZ t-ratio of 1.09.) As a result of the small number of policy changes, as the placebo law approach shows, ADZ cannot claim a significant increase in murder in those states adopting RTC laws after 1999.

The crack epidemic is not legitimate grounds for dropping data

In some of ADZ's estimates they drop all data from 1977 to 1998, ostensibly because of the crack epidemic, and then highlight the resultant findings. That move tends to change results, as they note: "Of course, omitting an appropriate control for the criminogenic influence of crack is problematic if the high-crack states tend not to adopt RTC laws and the low-crack states tend to adopt. This is in fact the case" (2014, 61); "the criminogenic influence of crack made RTC laws look beneficial since crack was raising crime in non-RTC states" (*ibid.*, 63); "the difficult-to-measure effect of the crack epidemic may influence our estimates" (*ibid.*, 5); "In particular, we suspect that a major shortcoming of all of the models presented is the inability to account for the possible influence of the crack-cocaine epidemic on crime" (56–57); "the immense increases and then declines associated with the rise and fall of the crack epidemic, which threatened a key assumption of the panel data model of crime (since these dramatic crime shifts were not uniform across states and thus could not be expected to be adequately captured by year fixed effects)" (54).

But does the crack epidemic really bedevil our research efforts? Is throwing away a large amount of data better than trying to account for these different factors? Rather than throw away data, some researchers have tried the latter: John Lott and David Mustard (1997) controlled for the effects of cocaine using cocaine price data, and Moody and Marvell (2008) used the Roland Fryer et al. (2013) crack index (see also Bronars and Lott 1998; Lott 2010, 277–282).⁵

One way to demonstrate the effect of a regime change, such as the crack epidemic, on the coefficients of a policy variable is to do a recursive regression: The model is estimated on data before the purported regime change and observations are added one year at a time (see Hendry 1995, 613–614; Pollock 2003). The coefficients are plotted over time to see if they are relatively constant or are in fact affected by a regime change. We present the results of such an analysis for

5. ADZ (2014, 57 n.44) criticize the use of cocaine price data to control for the influence of crack. They also use the Fryer et al. (2013) crack index for illustrative purposes, but not to control for crack (ADZ 2014, 61–64).

the murder equation in Figure 1, where “dummy” is the RTC dummy and “postlaw_trend” refers to the post-law spline.

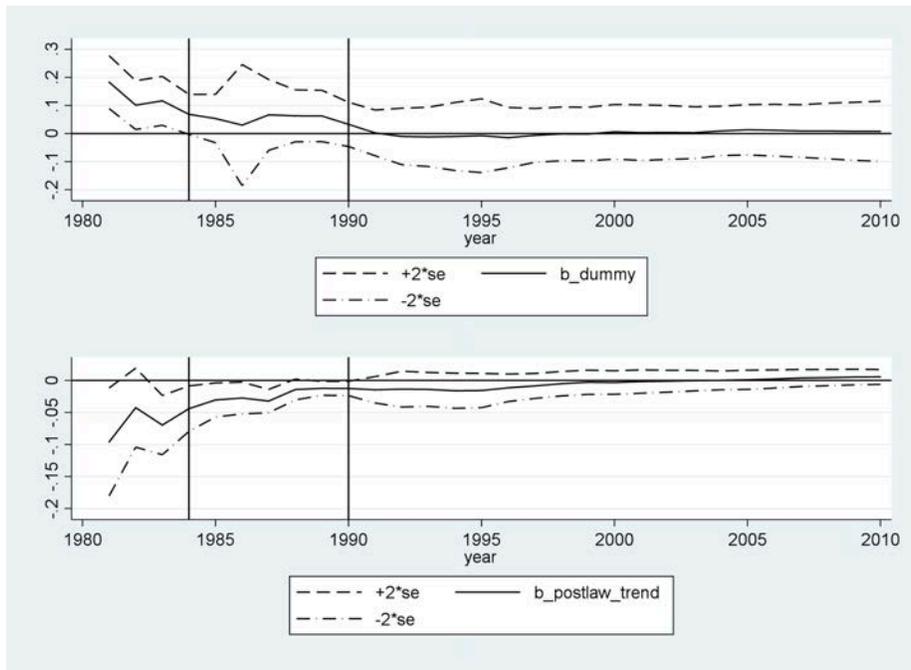


Figure 1. Recursive least squares: murder, dummy and post-law trend⁶

As the graph shows, there is no significant break during the crack years. The estimated coefficient on the RTC dummy starts significantly above zero, but drops steadily until it is virtually constant around zero from 1993 to the end of the sample. The coefficient on the post-law trend starts significantly negative. It drifts upward toward zero over time until it becomes insignificantly different from zero in 1990. In the case of the dummy, the error bands do not indicate more precision over time, but the error bands for the post-law trend indicate greater precision as the sample grows.

We also tested for a structural break in either the RTC dummy or the post-law trend in the ADZ model with “preferred” controls, with state trends, by including breaks for each year in turn (Stock 2003). That is, in equation (1) above, suppose the coefficient on the RTC dummy changes at some date τ , so that

6. We estimate coefficient for murder using the ADZ model with “preferred” controls and the ADZ data beginning in 1982, adding one year of data at a time and re-estimating. The error bands are plus/minus two standard errors. All results, data, and programs may be downloaded ([link](#)).

$$\beta_{d(t)} = \begin{cases} \beta_d & t \leq \tau \\ \beta_d + \theta & t > \tau \end{cases} \tag{2}$$

Similarly, suppose that the coefficient on the post-law trend changes at τ so that

$$\beta_{tr(t)} = \begin{cases} \beta_{tr} & t \leq \tau \\ \beta_{tr} + \varphi & t > \tau \end{cases} \tag{3}$$

Testing for a change in the coefficient estimates at τ is equivalent to testing the null hypothesis that $\theta=0$ and/or $\varphi=0$ in the following regression.

$$y_{it} = \alpha_i + \gamma_t + \delta t + \beta_d \text{RTC}_{it} + \theta Z_1(\tau) + \beta_{tr} \text{aftr}_{it} + \varphi Z_2(\tau) + X_{it}b + \varepsilon_{it} \tag{4}$$

where $Z_1(\tau) = \text{RTC}_{it}$ if $t > \tau$, zero otherwise and $Z_2(\tau) = \text{aftr}_{it}$ if $t > \tau$, zero otherwise. The coefficients θ and φ capture the effects of any structural breaks at year τ on the RTC dummy and post-law trend, respectively.

Since we do not know whether there was a break during the crack epidemic, or any other year, we use the Quandt likelihood ratio, or QLR test (Quandt 1960; Andrews 1993). The test statistics are the maximum values of the t-tests corresponding to the hypotheses that $\theta=0$ and $\varphi=0$, and the maximum value of the F-test corresponding to the null hypothesis that that $\theta=\varphi=0$. Since the test fails at the endpoints, we follow convention and trim five years from each end (15 percent), yielding the sample 1982–2005. If the crack epidemic was as pernicious as ADZ claim, then we would expect to find a significant break in at least one of the years from 1984–1990 in each of the crime equations, although breaks at other years are also possible. The results are presented in Table 1.

TABLE 1. QLR test for structural breaks

	Max T-ratio dummy	Max T-ratio spline	Max F-ratio
Murder	0.75	2.26	6.216*
Rape	2.21	-0.36	3.482
Assault	1.30	2.56	3.326
Robbery	2.44	0.71	4.649
Auto theft	2.43	-0.67	3.919
Burglary	2.59	0.98	8.198*
Larceny	2.92	0.83	3.108

Note: *p<.05. ADZ model with “preferred” controls and state trends. The dummy is the RTC dummy, the spline is the post-law trend, and the F-test is for the joint hypothesis that both coefficients are equal to zero. The entries are the maximum values for the corresponding t-ratio or F-test.

The five-percent critical value for the t-tests is 2.95 and the corresponding five-percent critical value for the F-test is 5.86 (Stock and Watson 2007, 568). There are no significant structural breaks in any year between 1982 and 2005 for either the dummy or the post-law trend. However, there is a significant break in the F-test for the joint significance of both the dummy and the post-law trend for murder and burglary. The year corresponding to the maximum F-ratio for the murder equation is 1993. None of the other F-tests for the murder equation are significant. Since the crack epidemic spanned the years 1984–1990, it would seem that it has had no effect on murder, confirming the results of the recursive least squares test. With respect to burglary, there are five significant F-tests corresponding to the years 1984–1988. The overall conclusion is that the crack epidemic has had no significant effect on any crime equation except perhaps burglary. The effect on both murder and burglary is somewhat problematic since neither the coefficient on the dummy nor the coefficient on the post-law trend show any significant break.

ADZ elevate results that exclude county-level data

ADZ estimate their model using both county and state data. They find, using their “preferred” controls and county data, that RTC laws have no significant effect on any of the seven index crimes investigated (ADZ 2014, 41–42).

ADZ (2014, 43–44) argue, based on articles by Michael Maltz and Joseph Targonski (2002; 2003; Maltz 2006), that the county data is riddled with error and cannot be used for policy evaluation. They then turn to state-level data for the remaining analyses. They come to this conclusion despite the fact that county data have orders of magnitude more observations than state data, the errors are mainly in the smallest counties which can be easily dropped from the analysis, and the errors cannot be shown to be systematically associated with the variables of interest (Lott and Whitley 2003). To us, the case for highlighting state-level data is weak. Nevertheless, we follow ADZ and continue to focus on state-level data.

Should state trends be included?

ADZ (2014, abs., 36, 81) cite Justin Wolfers (2006) for justification for questioning whether state trends should be included in the regression model. Wolfers criticizes the Leora Friedberg (1998) study of the effect of the unilateral divorce law on the divorce rate as follows: the dummy variable “picks up a shift in the

level of the divorce rate following the reform but leaves the subsequent downward trend following the initial post-reform spike in divorces to be picked up by state-specific trends” (Wolfers 2006, 1811). Thus, state trends can confound the results of a difference-in-differences analysis. This criticism, however, *applies to the use of a dummy without a post-law trend*. Since ADZ use a dummy and a post-law trend, the post-law trend presumably captures any subsequent trend due to the RTC laws.

In a study of divorce laws and family structure, Stéphane Mechoulan (2006) includes state-specific trends for the following reasons:

These variables should capture several evolutions in society that are unrelated to divorce law changes (such as greater opportunities for women in the workplace) and that may have an impact on the outcomes of interest. In particular, they will take care of any convergence in the definition of marital property and property division, regardless of the laws as they appear in the books. (Mechoulan 2006, 156)

Thus, state-specific trends are included to control for otherwise unobserved slowly moving factors that could be correlated with the dependent variable and the policy variable(s). A cautious methodology would include all potentially relevant variables and dropping any only if found insignificant. Yet the individual states’ trends are highly significant as a group ($p < .0001$) in all the ADZ regressions. State-specific trends are also very highly correlated with crime, the RTC dummy, and the post-law trend. In fact, regressing the RTC dummy and the post-law trend on the state trends yields F-tests that are significant at $p < .0001$. If the individual state trends are significant, estimates based on specifications with the trends left out would suffer from omitted variable bias. We conclude that individual state trends should be included in all models purporting to study the effects of RTC laws on crime.⁷

Number of trials and p-values

ADZ estimate their models many times over. In fact they estimate a grand total of 896 coefficient estimates on the RTC dummy and post-law trend. This allows them to say, for example, “the strongest evidence of a statistically significant effect would be for aggravated assault, with 11 of 28 estimates suggesting that RTC laws increase this crime at the .10 confidence level” (2014, abs.). Looking only at those tables that report results with individual state trends, we find that ADZ

7. We estimated the ADZ model with “preferred” controls for all seven index crimes using both county and state data, adding an F-test for the state trends as a group. The F-tests were invariably significant with $p < 0.0001$. All the programs, data, and log files may be downloaded ([link](#)).

reported 448 coefficient estimates, of which 47 are significant at the .05 level, as we show here in Table 2.⁸

TABLE 2. Number of significant coefficients

Table	Estimates	Murder	Rape	Assault	Robbery	Auto	Burglary	Larceny
4	28	0	0	2	0	0	0	0
5b	28	0	0	2	0	0	0	0
6b	28	0	0	0	0	0	0	0
7b	28	0	0	2	0	2	0	0
7d	28	0	0	2	0	1	0	0
8b	28	0	0	2	0	2	0	0
8d	28	0	0	2	0	3	0	0
9b	28	0	0	0	0	1	0	0
11b	28	0	2 (-)	0	0	0	0	1 (-)
12b	28	2 (-)	2 (-)	0	0	0	0	0
13b	28	0	0	0	0	2	0	2 (-)
B2	28	0	0	0	0	0	0	0
B4	28	0	0	2	0	0	0	2 (-)
C3	28	0	0	2	0	3	0	0
C4	28	0	0	0	0	3	0	0
D2	28	0	0	1	0	2	0	0
Total	448	2	4	17	0	19	0	5
Note: (-) indicates negative coefficients.								

Breaking the ADZ results down by crime, we find that assault and auto theft account for 36 out of the 47 coefficient estimates that are significant at the .05 level. Robbery and burglary show no significant coefficients. Murder has two significant coefficients, both negative. Rape has four significant coefficients, all negative, and larceny has five significant coefficients, all negative. So, the most ADZ can claim is that there is some evidence that RTC laws increase assault and auto theft, but there is also some evidence that RTC laws reduce murder, rape, and larceny.

However, reporting the results of 448 trials increases the probability of false positives. There are well-known methods of correcting for such an effect, such as the Bonferroni adjustment. The 448 trials derive from seven crime equations, each estimated 64 times. The Bonferroni-corrected significance level would be $.05/64=.0008$, with a corresponding critical value of 3.16, an appropriately difficult hurdle to leap. But none of the coefficients in any of the regressions reported in these tables is significant at the .0008 level.⁹

8. The model with “ADZ preferred controls” is featured in ADZ tables 6, 8, 11, 12, 13, C1–C3, and D.

9. It could be argued that the tables in the appendices are merely robustness tests and therefore should

We conclude that none of ADZ's results from these regressions give reason to think RTC laws have had any effect on crime.

Misleading year-by-year estimates

ADZ report the results of analyzing dummy variables corresponding to years before and after the passage of the RTC law. Doing that has an advantage over dummy and spline variables in that it does not impose a structure on the behavior of the dependent variable after the passage of the law. The analysis output consists of graphs plotting the estimated coefficients. Unfortunately, ADZ did not see fit to report whether any of these estimated coefficients are significant. Nevertheless, ADZ conclude from the assault graph, for example: "The general story here seems to be that assault increases markedly over the time period after law passage, which squares with our results discussed in previous sections. One observes positive coefficient changes that are initially modest, but that increase dramatically and uniformly over the second half of the post-passage period" (2014, 72).

This is a bold conclusion. An interesting question would be: Are the coefficients on the ADZ dummies, on which these conclusions are based, significantly different from zero? Are they significantly different from the coefficient corresponding to the year of passage? Since ADZ do not report significance levels, we attempted to replicate their analysis from the information given in ADZ (2014).¹⁰ We constructed eight yearly post-law year dummies. We also created eight pre-law year dummies plus a dummy for years 9 and earlier as an indicator of possible reverse causation from changes in crime rates and the passage of RTC laws. We used the full sample from 1977 and the ADZ model with "preferred" controls and state trends. The results are presented in Table 3.

There are seven significant coefficients in the seven crime equations reported in Table 3. There no significant post-law coefficients in the assault, robbery, auto theft, or burglary equations. F-tests on the difference between the post-law coefficients and the year-zero coefficient are all insignificantly different from zero except for murder (year 7, negative) and rape (year 5, negative). All of the F-tests for the difference between the pre-law coefficients and the year zero coefficient were insignificant except for auto theft (year 3 and year 8) indicating that there is no

not be counted as trials. If we ignore the last five rows of Table 2, the number of trials is $11 \times 28 / 7 = 44$. The Bonferroni significance level would be $.05 / 44 = .001$, which yields a critical value of 3.10. None of the coefficients is significant at that level.

10. The programs used by ADZ to generate the graphs on which these conclusions were based are not included in the zip file provided to researchers by ADZ. We emailed Donohue to see if the programs were still available. Unfortunately, he was not able to provide the programs to us.

reverse causation from the crime rates to the passage of RTC laws, except perhaps auto theft. ADZ’s bold conclusions concerning the behavior of assault after the passage of a RTC law, as well as their similar conclusions with respect to the other crimes, are unwarranted.

TABLE 3. Coefficients on post-year dummies

		Murder	Rape	Assault	Robbery	Auto theft	Burglary	Larceny
Year 0	Coeff.	0.041	-0.028	-0.054	0.008	-0.027	0.017	-0.021
	Adjusted	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	T-ratio	0.82	-0.71	-1.27	0.16	-0.49	0.55	-0.83
Year 1	Coeff.	0.030	-0.018	-0.056	0.025	0.002	0.022	-0.012
	Adjusted	-0.011	0.010	-0.002	0.017	0.029	0.005	0.009
	T-ratio	0.58	-0.42	-1.28	0.56	0.05	0.80	-0.50
Year 2	Coeff.	0.006	-0.030	-0.075	0.018	-0.007	0.022	-0.015
	Adjusted	-0.035	-0.002	-0.021	0.010	0.020	0.006	0.006
	T-ratio	0.12	-0.87	-1.75	0.40	-0.15	0.78	-0.60
Year 3	Coeff.	0.002	-0.042	-0.071	0.001	-0.006	0.004	-0.027
	Adjusted	-0.038	-0.014	-0.017	-0.007	0.021	-0.013	-0.006
	T-ratio	0.05	-1.19	-1.59	0.01	-0.14	0.14	-1.08
Year 4	Coeff.	-0.001	-0.073	-0.081	0.011	-0.006	0.004	-0.022
	Adjusted	-0.041	-0.045	-0.027	0.004	0.021	-0.012	-0.001
	T-ratio	-0.01	-2.14*	-1.69	0.28	-0.14	0.16	-0.92
Year 5	Coeff.	0.000	-0.082	-0.071	0.008	-0.007	0.005	-0.015
	Adjusted	-0.040	-0.054	-0.017	0.001	0.020	-0.011	0.005
	T-ratio	0.01	-3.00**	-1.53	0.23	-0.16	0.20	-0.72
Year 6	Coeff.	-0.017	-0.079	-0.075	0.004	0.002	0.023	-0.005
	Adjusted	-0.058	-0.051	-0.021	-0.003	0.028	0.006	0.016
	T-ratio	-0.43	-2.52*	-1.56	0.12	0.04	0.97	-0.30
Year 7	Coeff.	-0.067	-0.065	-0.058	0.025	0.018	0.020	0.023
	Adjusted	-0.108	-0.037	-0.004	0.017	0.045	0.004	0.044
	T-ratio	-2.19*	-2.30*	-1.55	0.85	0.53	1.36	1.55
Year 8	Coeff.	-0.002	-0.052	-0.039	0.018	-0.001	0.022	0.028
	Adjusted	-0.043	-0.024	0.015	0.010	0.026	0.006	0.049
	T-ratio	-0.07	-3.08**	-1.40	0.62	-0.02	1.59	2.02*

Notes: Adjusted equals the coefficient minus the coefficient for year zero. T-ratios are for the unadjusted coefficients. *p<.05; **p<.01.

Conclusions

The overall conclusion of our analysis of the ADZ model with “preferred” controls—but including state-specific trends and using all the data from 1977 to 2010—is that there is no evidence that the RTC laws have increased crime. That finding is a negative and agnostic one, and it is in line with what the NRC concluded in 2005.

Before closing, we relate our criticisms here to another recent NBER work-

ing paper by Donohue, Aneja, and Kyle Weber (2017). In that paper the authors re-estimate their model with a few more years of data, but now they omit individual state trends from all of their panel data models. As we showed above, such omission is not justified and changes the results. As of this writing, they have not made their dataset available for replication purposes.

Appendix

A zip file with all the data, Stata do-files, and results contained in this paper, plus a readme file with the necessary details for replication purposes, is available online ([link](#)).

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More Gun Carrying, More Violent Crime

John J. Donohue¹

[LINK TO ABSTRACT](#)

I have written a number of articles, usually with various coauthors, discussing the issue of the impact of laws allowing citizens to carry concealed handguns on crime, and commenting on the challenging methodological issues involved in trying to estimate this impact from panel data models, looking at data for all states over an extended period of time. One feature of the literature trying to estimate the impact of these so-called right-to-carry (RTC) laws is that it has improved over time: Panel data econometric methodology has advanced in a number of ways since the initial paper by John Lott and David Mustard (1997) examining the question, and there is simply more data to analyze as time goes by and more states have adopted RTC laws. Moreover, additional scholarly work has improved the coding of key variables, such as dates of adoption of RTC laws, and my work has constantly tried to upgrade the quality of the data in this dimension as well as from FBI crime data corrections, which has been a continuing process. Importantly, new statistical techniques to supplement or replace panel data approaches have enabled a clearer picture to emerge of the likely impact of RTC laws than was previously available.

In contrast to this continuing set of advances, Carlisle Moody and Thomas Marvell (MM), in their latest attempt to criticize any evidence that RTC laws increase crime, take us back to an old paper I coauthored with Abhay Aneja and Alexandria Zhang (ADZ 2014) that analyzed county data through 2006 and state data through 2010. The abstract of that paper by ADZ notes: “It will be worth exploring whether other methodological approaches and/or additional years of

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data will confirm the results of this panel-data analysis and clarify some of the highly sensitive results and anomalies that have plagued this inquiry for over a decade.” A number of newer papers—including a major new work of mine co-authored with Aneja and Kyle Weber (DAW 2018)—have now forged ahead with various new approaches and more and better data, so I would rather focus attention on this new and improved literature rather than rehearsing old issues that in a number of respects have now been superseded by various statistical and data improvements.² Nonetheless, a few comments of retrospection may be valuable if coupled with some elaboration of the continuing advances in our knowledge. In the first section I will address the major points that MM make in their latest paper, and in the second section I will briefly comment on some of the latest developments in the literature addressing the impact of RTC laws on crime.

The MM criticisms and my response

MM begin their paper with a list of seven “chief criticisms,” six of which are simply wrong, misleading, and/or largely irrelevant, and one of which is worth considering (the issue of state-specific trends in panel data models). They also waste the reader’s time with a number of petty complaints that are irrelevant to the important issue of the impact of RTC laws.³

MM criticize the finding that RTC laws increased murder over the period 1999–2010

The first critique that MM level is that they do not like the ADZ analysis of data from 1999–2010 that was designed to estimate the impact of RTC laws over a period that would eliminate the confounding effect of the crack epidemic on crime. The matter is potentially important because we do not have a useful

2. For example, ADZ had followed a Lott and Mustard coding that set the date of the Virginia RTC law at 1988, when the correct date is now widely agreed to be in 1995. These and other codings were corrected in DAW (2018), so we would advise readers to focus on that paper, rather than the less accurate results presented in MM’s comment (or the earlier ADZ paper). Moreover, the ADZ model was designed to modify the Lott and Mustard model only by removing its most problematic features. DAW (2018) provides an independent attempt to generate the best model for estimating the impact of RTC laws on crime, which is an additional reason to prefer this more recent work to the older ADZ paper.

3. MM ramble on about the dates on the various drafts of a paper and even complain that one clearly demarcated date on an NBER working paper is not prominent enough for them. It is also a bit churlish for MM to end their paper with a complaint that I haven’t made available the data on a paper I am still working on and still revising, without even offering a trace of the customary thanks for data sharing in light of the fact that I furnished all the data and do files that MM used in drafting their paper.

explanatory variable that captures the criminogenic influence of the rise of crack cocaine markets in the late 1980s and early 1990s. But virtually everything MM say about it, except when they are summarizing points already made by ADZ, is incorrect or misguided.

There is no valid control for the criminogenic influence of crack

For example, MM hint that it might be better to come up with a control for the criminogenic influence of crack, such as price data used by Lott and Mustard or a crack index created by Roland Fryer et al. (2013). The price data is worthless, however, because no one has offered any logical linear relationship between the price of cocaine in a state in a given year and crime in that state and year, and in fact no such relationship has been found empirically. Nor is the crack index helpful as it has been shown to have no relationship to estimates of the impact of RTC laws (DAW 2018). The crack index is an index of crack prevalence, not of the criminogenic influence of crack on crime, which was largely mediated through gang rivalry over drug distribution. Moreover, since the crack index is only available for a limited set of years, its use would require throwing away years of data, which is the problem MM say they are most worried about.

MM coauthor Zimmerman also finds that post-crack era RTC laws increase murder

Interestingly, MM wrote an earlier paper attacking ADZ’s work on RTC laws, in which they teamed up with John Lott (the first to claim that RTC laws *reduced* crime) and Paul Zimmerman (Moody, Lott, Marvell, and Zimmerman 2012). Zimmerman has recently published his own work in this area, in which he looks at the exact 1999–2010 period that MM now say is inappropriate. Zimmerman finds that RTC laws increased murder by 15.5 percent, which provides support for the similar ADZ finding that RTC laws increased murder over the identical period (Zimmerman 2014, 71, 72). MM are curiously silent about Zimmerman’s finding, and perhaps MM should be taking up their complaint with their coauthor.

There is no merit to the MM complaint about power in the post-crack era analysis since the finding that RTC laws increase murder is statistically significant

MM’s complaint that ADZ examine a “greatly truncated sample” (again,

a complaint they might also have made about Zimmerman 2014) is consistent with MM's apparent inability to understand that many important issues are not susceptible to a simple binary resolution. You gain something from looking at post-crack era data, and you lose something. The resulting information needs to be weighed along with everything else we know. Yet MM tell us what they believe is the most important problem with the post-crack era analysis: "Obviously, and foremost, reducing the sample from 34 years to 12 years limits the power of the analysis" (2018, 55). This might indeed be a problem if ADZ and Zimmerman had been unable to detect a statistically significant increase in the homicide rate over this period, but, since they did detect such an increase, MM's "foremost" objection is utterly lacking in merit. One is concerned about power when the data cannot detect a true effect, so MM's critique would be valid had the regression failed to generate statistically significant evidence that RTC laws increase crime. The ADZ and Zimmerman finding that RTC laws generate a statistically significant increase in murder shows that power is not a problem in those regressions.

There is of course a trade-off in looking at a sub-period because one will necessarily be looking at only a subset of the RTC adoptions, since panel data will only generate estimates for RTC laws that change during the analyzed span of years. Looking at a sub-period would be most problematic if these late-adopting states were different enough that one would expect RTC laws would have a materially different impact in those states than it had on the larger number of earlier-adopting states. But MM spend a great deal of time arguing that the relationship between RTC adoption and crime has remained stable, so they are implicitly arguing that predictions that post-crack era RTC laws increase murder should constitute an unbiased estimate of the impact of RTC laws for all prior adopters.

MM's test shows the opposite of what they claim

MM's attempt to argue that the post-1998 data period was not substantially different from the earlier period of enormous crime increases followed by dramatic crime declines is designed to discredit the finding of increased rates of murder, but even the most cursory look at the data suggests that MM's contention is unlikely to be true. To buttress their implausible claim, MM seek to concoct some test that they argue will show that there was no regime change owing to crack. Amazingly, their own test shows that there *was* in fact a regime change for murder, with the break coming in 1993. In other words, while MM were hoping to establish that the ADZ (and presumably Zimmerman) analysis of 1999–2010 should be ignored, they have in fact proved exactly the opposite. Unless one can accurately model the differing regimes, it would be problematic to run a regression that spanned the two distinct crime regimes that MM have identified. In other words, in trying to undermine the

ADZ post-crack analysis, MM have completely substantiated the need for it.

But how then do they still maintain that their “test” shows that the ADZ and Zimmerman sub-period analyses are flawed? With a statement that seems as though it comes out of an *Airplane!* movie (“Surely you can’t be serious!” “I am serious, and don’t call me Shirley”), MM say that the data limitation is inappropriate because the regime change occurs in 1993, which means it can’t be caused by the crack epidemic as ADZ maintained. But the approach of ADZ (and Zimmerman) is validated as long as there is a regime change after 1993 that one cannot adequately control for, regardless of whether it is caused by crack or some other uncontrolled influence. In other words, MM have established a reason for skepticism of results estimated over the entire data period and fortified the rationale for conducting a sub-period analysis that is not marred by the regime change. Having just inadvertently established the wisdom of looking at a period after the large and opposing crime swings before and after 1993, MM then compound their error with the astonishingly obtuse claim: “Since the crack epidemic spanned the years 1984–1990, it would seem that it has had no effect on murder” (2018, 59).

Perhaps the one thing that every serious researcher on crime, as well as every urban police officer of the time, has agreed on is that the onset of the crack epidemic substantially increased the murder rate (Levitt 2004). The fact that MM think that they have proven otherwise shows that something is very wrong with their analysis. There is much more that could be criticized about their discussion of this issue,⁴ but the point should be clear: There was a regime shift in crime (many have attributed it to crack, but MM say it comes in 1993 after the crack period has ended), so it makes sense to look at the impact of RTC laws at a time period *after* the regime shift has occurred so as not to be confounded by it.⁵ ADZ did this, as

4. MM make a glaring error when they state: “the finding that RTC laws increase murder is based on comparisons between states that recently adopted laws with states that already had such laws, as opposed to the comparison to states that do not have the laws” (MM 2018, 53). This “criticism,” directed at the 1999–2010 analysis in the old ADZ paper and presumably at the Zimmerman panel data analysis over the same period, is actually a feature of every panel data analysis of RTC laws that includes all states, including all of MM’s past and current regressions on RTC laws. But even if there were merit in this objection, it can easily be addressed by simply running the panel data analysis only on never-passing states and those adopting RTC laws during the post-crack era, since that will limit the comparison to new adopters and never adopters. This restricted regression does not undermine the finding that RTC laws increase crime. There is simply nothing to this critique.

5. It should be noted that MM offer no evidence for their claim that the crack epidemic lasted from 1984–1990, nor even any explanation of what they mean by the crack epidemic (which could reflect a measure of crack consumption when we are interested in the contribution to increased crime caused by that new drug plague). Perhaps their current analysis here should be taken to mean that the end of the crack epidemic came in 1993. Moody has recently submitted an expert report for the National Rifle Association in litigation challenging California’s ban on large-capacity magazines in which he asserts without any justification that the crack era went from 1984–1991 (*Duncan et al. v. Becerra et al.*, S.D. Cal., case no. 3:17-cv-01017-BEN-JLB, report dated November 3, 2017), so there is clearly imprecision and flexibility in

did Zimmerman (2014) and Donohue (2017), and all found statistically significant evidence that RTC laws increased the rate of murder and/or firearm homicides.

MM argue the murder finding is based on incorrect standard errors

MM continue their critique of the finding that RTC laws increase murder by stating that “ADZ claim that finding is statistically significant, but we find that their standard errors and t-ratios are incorrect and that the finding is not significant” (MM 2018, 53). Just to be clear, MM found no error but rather think that they have a better way of adjusting the standard errors than a standard approach of using a cluster adjustment. In fact, the National Research Council (2005) report on RTC laws argued that no standard error adjustment of any kind was needed, and it was earlier ADZ work that showed that some adjustment to the standard errors was needed to avoid exaggerated findings of statistical significance. If the NRC report is correct on this issue (I don’t think it is) or ADZ’s clustering standard error adjustment is appropriate, then the finding that RTC laws increase murder is highly statistically significant. MM offer an alternative approach to estimate the standard errors for the RTC estimates but the impact of their adjustment is relatively slight: It barely nudges the level of significance of the estimate that RTC laws increase the murder rate slightly below the .05 level. MM seem to think that this undermines the finding that RTC laws likely increase the murder rate. It does not.

Even assuming that the standard error adjustment that MM made was preferable to the ADZ cluster adjustment (and to the NRC report view arguing for no adjustment), it would only raise the p-value to .056. But MM’s belief that results with a p-value below .05 should be believed while those above .05 by even the slightest amount should be rejected makes no sense, for the reasons recently set forth in *Nature* by the top statisticians Blakeley McShane and Andrew Gelman under the admonitory heading “Abandon statistical significance:”

This year has seen a debate about whether tightening the threshold for statistical significance would improve science. More than 150 researchers have weighed in. We think improvements will come not from tighter thresholds, but from dropping them altogether. We have no desire to ban *P* values. Instead, we wish them to be considered as just one piece of evidence among many, along with prior knowledge, plausibility of mechanism, study design and data quality, real-world costs and benefits, and other factors. (McShane and Gelman 2017)

MM’s delineation of the crack era.

We are speaking of an estimated substantial increase in murder emanating from adoption of RTC laws. It would be foolish indeed for a legislator (or judge) to ignore this evidence that RTC laws lead to more murder simply because the p-value was just barely above the .05 level. Indifference to evidence of increased murder in slavish adherence to what is little more than a rough rule of thumb is reckless at best.

MM complain that ADZ ignore county-data estimates

MM tell us that “ADZ ignore results based on county-level data, which do not support their hypothesis that RTC laws increase crime.” This is simply incorrect. In fact, ADZ present both county-level and state-level estimates, and allow the reader to decide which estimates are preferable. I reproduce two relevant figures from ADZ which each graphically depict 14 different estimates of the impact of RTC laws for both the dummy and spline models for aggravated assault using different data sets (state and county), time periods (through 2000, 2006, or 2010), and models (Lott and Mustard versus the ADZ preferred model, with and without state trends). For example, Figure E5 shows estimates of the impact on aggravated assault using the dummy model, which is designed to capture the average effect of RTC laws during the post-passage period. The first bar in each of the first six groupings corresponds to county-level estimates (generally run on data through 2006 unless otherwise noted); the second bar corresponds to state-level estimates (generally run on state data through 2010), for a total of 14 estimates per figure. Additionally, the last two estimates in each Figure only contain one bar corresponding to state models run between 1999 and 2010 (since our county data ended in 2006). The figure was designed to facilitate quick visual observation of the size and statistical significance of an array of estimates.

As the ADZ paper states:

The estimates of the impact of RTC laws on aggravated assault in Figures E5 and E6 are significant at at least the .10 level suggesting crime increases in 11 of the 28 estimates depicted, as indicated by the shading of the columns. Note that the overall impression from these two figures is suggestive that RTC laws *increase* aggravated assault, although the evidence is not uniformly strong in the more preferred models. No other crime category has as strong evidence of an impact of RTC laws as the findings on aggravated assault. (ADZ 2014, 100–101)

Figure E5. Various Aggravated Assault Estimates (Dummy Model)

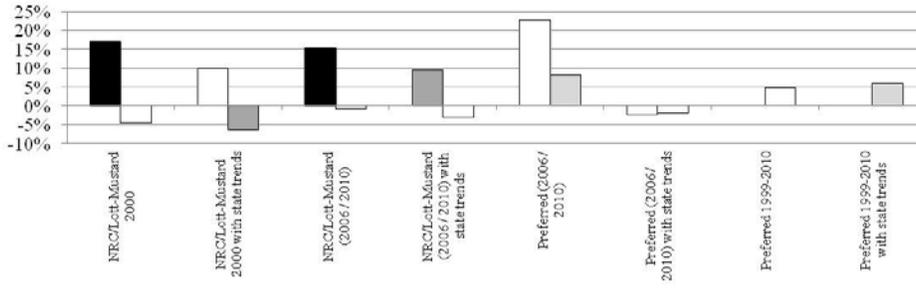
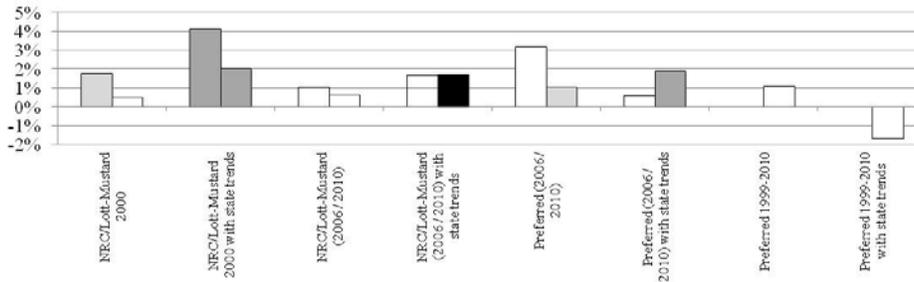


Figure E6. Various Aggravated Assault Estimates (Spline Model)



Note: No shading indicates insignificance, and the shading darkens as significance increases (from a light grey indicating significance at the .10 level, slightly darker indicating significance at the .05 level, and black indicating significance at the .01 level). (ADZ 2014, 101 n.72)

ADZ presented reasons for considering that county-data estimates were less reliable than state-level estimates (for example, the government withdrew the 1993 county data as too flawed to rely on and scholars have emphasized the superior reporting and more complete FBI validation in the state versus county data; in addition, the county data only went to 2006 while the state data analyzed in ADZ went through 2010). But ADZ certainly didn't ignore the county-data results, nor would they have any reason to do so to avoid showing uncongenial results (as MM recklessly suggest). Indeed, many of the county-data estimates (the left column in any pair) were larger and more statistically significant than the state-data estimates (the corresponding right column). Since MM have had much greater support for their coauthor Lott's regression model, their affection for the county-level data and for using the longest data period would presumably push them to embrace the models with those three attributes. But had they done so (whether they selected the model with or without state trends) they would have endorsed a finding that RTC laws substantially *increase* aggravated assault at the .05 level or better, as seen in the Lott and Mustard county-data estimates through 2006 in Figure E5. Thus,

MM should have written: ‘While ADZ chose to emphasize models selected on articulated and rational grounds regardless of the resulting prediction, MM chose to ignore the county-level Lott model that they have claimed to endorse, which showed a statistically significant *increase* in aggravated assault.’

MM complain that ADZ argue against including state-specific trends

MM state that ADZ “report the results of their model with ‘preferred’ controls with and without individual state trends. However, since the state trends are highly significant ($p < .0001$) and are highly correlated with both the dependent variable and the RTC dummy and post-law trend, the results without the state trends may suffer from omitted variable bias” (MM 2018, 53). This is actually the only issue in the MM paper worth considering: Is it advisable to include linear state-specific trends in panel data estimates of the impact of RTC laws on crime?

ADZ show estimates with state-specific trends that show RTC laws increase aggravated assault

Again we should emphasize that MM have been far more enthusiastic about their coauthor Lott’s county-data model with state trends, and as we just saw in Figure E5 from the ADZ paper reproduced above, that model shows a statistically significant *increase* in aggravated assault follows from RTC adoption. Moreover, as Figure E6 shows, RTC laws lead to a statistically significant *increase* in aggravated assault using state data with state-specific trends over the entire data period, whether one uses the Lott and Mustard or ADZ spline model. In other words, it certainly is not the case that using state trends eliminates the finding that RTC laws increase violent crime.

Potential problems with including state-specific linear trends, especially over long data periods with differing crime regimes

But should the state trends be included? As ADZ noted, adding state trends could be helpful if it corrects for an important omitted variable, but it could also be harmful because the state trends will not just pick up a pre-existing trend but will also pick up any effects of the RTC law that unfold over time in a similar fashion to the pre-existing trend. Contrary to what MM seem to believe, the fact that the state trends are statistically significant does not distinguish which of these situations is present.

The problem is illustrated by the well-known case of claims that the Civil Rights Act of 1964 could not have stimulated black economic welfare because the black-white wage gap closed at the same rate from 1940–1960 as it did from 1960–1980. A pre-existing linear trend that continued after the implementation of the 1964 law was (incorrectly) taken as a sign the law had no effect. In fact, the law had a substantial effect in the decade after adoption and the pre-existing trend of a narrowing wage gap that seemingly continued unabated would have ended without the new stimulus provided by the 1964 Act. Essentially there were different effects operating in each time frame and both elevated black wages: From 1940 to 1960 black migration from the poor rural south to Northern cities enhanced relative black earnings, but this migration ended by 1964. At that point the improving trend in the black-white wage gap continued, but now fueled by the demand stimulus provided by the 1964 Act: Blacks were suddenly allowed to enter entire industries from which they had previously been excluded (Donohue and Heckman 1991).

The general point is that state-specific trends don't just pick up pre-existing trends, they pick up any variation over time that hasn't effectively been modeled, and if the impact of RTC laws on aggravated assault rises over time as the number of permits rise—as the evidence seems to suggest—then this dynamic response will be obscured by the inclusion of a state-specific trend. In any event, ADZ included the estimates derived using state-specific trends, which at times yielded statistically significant increases in aggravated assault in Figures E5 and E6, so that readers could make their own judgment about the weight of the evidence. As the ADZ abstract states:

Our paper highlights some important questions to consider when using panel data methods to resolve questions of law and policy effectiveness. We buttress the NRC's cautious conclusion regarding the effects of RTC laws by showing how sensitive the estimated impact of RTC laws is to different data periods, the use of state versus county data, particular specifications (especially the Lott-Mustard inclusion of 36 highly collinear demographic variables), and the decision to control for state trends.

Across the basic seven Index I crime categories, the strongest evidence of a statistically significant effect would be for aggravated assault, with 11 of 28 estimates suggesting that RTC laws increase this crime at the .10 significance level. An omitted variable bias test on our preferred Table 8a results suggests that our estimated 8 percent increase in aggravated assaults from RTC laws may understate the true harmful impact of RTC laws on aggravated assault, which may explain why this finding is only significant at the .10 level in many of our models. Our analysis of the year-by-year impact of RTC laws also suggests that RTC laws increase aggravated assaults. Our analysis of admittedly imperfect gun aggravated assaults provides suggestive evidence that RTC laws may be associated with large increases in this crime, perhaps increasing such

gun assaults by almost 33 percent. (ADZ 2014, abs.)

While the issue of state-specific trends is a challenging one, the regime change—that we have just seen MM document—from a period of rapid crime rise to one of rapid crime decline is unlikely to be handled well by the inclusion of linear state-specific trends. In fact, this issue may only add to the concern over estimating panel data models over the extended data duration that MM seem to advocate. These considerations provide further reasons for turning to newer statistical approaches, such as synthetic controls, which is less sensitive to modelling choices and which has been deemed “arguably the most important innovation in the policy evaluation literature in the last 15 years” (Athey and Imbens 2017, 9).

Analysis of pre- and post-law dummy variables

MM complain that ADZ “present results from a set of pre- and post-law dummy variables without disclosing the associated significance levels” (MM 2018, 53). Oddly, MM then present a table based on panel data regressions with state-specific trends that purports to show essentially no effect of RTC laws using similar year-by-year dummy variables to ADZ, but the MM table contains two errors: (1) it fails to include the pre-law dummies, which are used to evaluate the key panel data assumption of parallel trends, and (2) it fails to disclose the correct significance levels. The second problem is particularly strange since MM seem to realize that the relevant dummy estimate is not the full dummy value for a given post-law year but rather the difference between that value and the initial dummy value (in order to capture the change in, say, aggravated assault after RTC adoption). Instead of providing t-statistics for the relevant adjusted dummy estimates, MM incorrectly provide them for the irrelevant unadjusted dummies.

Moreover, as we just saw, MM have given us a reason to be wary of the estimates run on the entire data period, namely the regime change they identified, and this would be a particular concern when including state-specific trends, as they do in their analysis. The combination of the problems of regime change, the uncertainties associated with the use of state-specific trends, and the evidence from the ADZ pre- and post-law dummy variable estimates that MM reference persuaded me that there were enough concerns about panel-data estimates, at least through 2010, that it would be worthwhile to try to secure more and better data and seek new and better estimation approaches, as the NRC report recommended. That is what gave rise to Donohue, Aneja, and Weber (2018), and now I turn to the latest evidence from this new and improved paper and other recent scholarly work in this area.

More data and new statistical techniques

Major conclusions from the prior discussion

The basic conclusions that should be drawn from the MM paper and the preceding comments are:

1. There are potential problems in generating panel data estimates over the entire period from the late 1970s through 2010 because there were two different regimes, pre- and post-1993.
2. These two regimes, of first sharply rising and then steeply declining crime rates, raise doubts about the wisdom of using state-specific linear trends to capture strong non-linear movements in crime over the full data period. Nonetheless, all state-level models with state trends showed statistically significant increases in aggravated assault (Figure E6), as did the Lott and Mustard county-data dummy model with or without state trends (Figure E5).
3. The evidence that RTC laws increase murder over the period from 1999–2010 is extremely strong if one subscribes to the NRC report's view that no adjustment of standard errors is necessary, very strong if one uses the ADZ cluster adjustment (also employed by Zimmerman 2014), and still quite strong with a p-value of .056 if one uses the proposed MM adjustment. A proper evaluation of the costs of Type I and Type II error in this domain suggests that the finding that RTC laws increase murder should be taken very seriously.

Massive gun thefts in RTC states fuel violent crime even in non-RTC states

New discoveries have also raised additional concerns about bias in the panel-data estimates. A growing body of evidence highlights the enormous increase in gun thefts that follow the practice of carrying guns outside the home (see DAW 2018, 10–11). A plausible estimate is that 100,000 guns a year are stolen from concealed-carry permit holders, and as Wayne LaPierre of the National Rifle Association has emphasized stolen guns play a significant role in increasing the rate of murder and violence (DAW 2018, 10 n.16, 10 n.17). This massive amount of gun theft not only elevates crime in RTC states, but also has harmful effects outside the

particular RTC state by contributing weapons to the Iron Pipeline that fuels crime in non-RTC jurisdictions such as New York City, California, Maryland, and (prior to 2014) Illinois. This phenomenon undermines a core assumption of panel-data models that the treatment will not influence crime in the control states (DAW 2018; Smith 2016). Consequently, a panel-data analysis will generate biased estimates that understate the crime-increasing impact of RTC laws.

Recent panel data studies finding that RTC laws increase crime

The likely bias in panel-data estimates against a finding that RTC laws increase crime, coupled with concerns about RTC estimates derived over the pre- and post-1993 crime regimes, again pushes us to examine post-crack era data. This makes Zimmerman’s finding noteworthy since it avoids the second concern by looking at 1999–2010 data and overcomes the first in that it finds that RTC laws increase crime: “The shall-issue coefficient takes a positive sign in all regressions save for the rape model and is statistically significant in the murder, robbery, assault, burglary, and larceny models. These latter findings may imply that the passage of shall-issue laws increases the propensity for crime, as some recent research (e.g., Aneja, Donohue, & Zhang, 2012) has suggested” (Zimmerman 2014, 71).

Other recent evidence buttresses the Zimmerman finding. In a recent paper in the *American Journal of Public Health*, I showed that over the 2000–2014 period, when 11 states adopted RTC laws, there was strong and statistically significant evidence that firearm homicides were elevated by RTC adoption (Donohue 2017). In the same issue of the *American Journal of Public Health*, Michael Siegel and co-authors (2017) concluded that RTC laws lead to a substantial increase in murders, almost all of which comes through increased firearms killings—specifically from handguns. And a new paper by Marjorie McElroy and Peichun Wang (2017) concludes, using a wholly different estimation approach, that violent crime would be one-third lower if a state had not adopted a RTC law.

LASSO and synthetic controls analyses show RTC laws increase violent crime

The new work by DAW (2018) adds four more years of data to the ADZ data set while fully updating many of its data variables including the dates of some RTC laws that earlier studies had mis-timed.⁶ DAW (2018) not only provides a panel data

6. Specifically, it is now widely accepted that Virginia did not adopt RTC until 1995, although Lott and

analysis on this improved dataset but also adds two newer statistical approaches: a LASSO treatment and a synthetic controls analysis.

The LASSO approach is designed to probe whether the RTC estimates remain consistent across an array of explanatory variables. Indeed, they do (even though this analysis is conducted over the entire data period from 1979–2014 and thus has the regime change issue discussed above): The LASSO analysis suggests across all values that RTC laws are associated with positive increases in violent crime ranging from 1.4 percent to 8.4 percent.

The synthetic-controls estimates are even larger, and this approach appears to do a much better job than the panel-data evaluation in generating robust and statistically significant evidence that RTC laws increase violent crime from 13–15 percent by the tenth year after adoption. Unlike the panel-data estimates, the finding of increased violent crime holds regardless of which set of explanatory variables is employed. Furthermore, some of the weaknesses in analyzing RTC with panel data—such as problems using linear state time trends over an extended time frame when crime was very volatile and bias caused by the flow of guns to non-RTC states and by omitted variables, such as the criminogenic impact of crack—are more readily addressed using the synthetic controls analysis.

The emerging consensus: RTC laws increase violent crime

At one point, some argued, with apparent belief, that RTC laws decreased crime. The libertarian instincts of Moody and Marvell seem to push them towards the view that perhaps there is a zero net effect of RTC laws on crime. Of course, if RTC laws really generated no net crime reduction, they must be socially harmful because there are obvious costs even beyond the billions of dollars spent on buying guns, training for their use, maintaining them, and carrying them around (not to mention the contribution to accidental shootings, plus the interference with policing that attends RTC adoption; see DAW 2018, 12–14).⁷ Those billions could clearly reduce crime if properly allocated towards known crime-reducing policies. But as Phil Cook and I, writing in *Science*, summarize the latest evidence: “With many years of post-crack-era data now available, there is an emerging consensus that, on balance, the causal effect of deregulating concealed carry (by replacing a restrictive law with an RTC law) has been to increase violent crime.”

Mustard (1997) followed an erroneous coding of 1988, as had the NRC report and ADZ (see ADZ 2014, 108). Accordingly, the NRC report and ADZ estimates should be recognized as having this error in state coding, which has now been corrected in the DAW data set.

7. Would MM want to argue that even if gun carrying doesn’t make the public safer, the misperception that it does generates psychological benefits? Might this be part of their strategy to protect these soothing fantasies from any effort to illuminate the harsh truth?

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Liberalism in Ukraine

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Ukraine is an ex-Soviet industrialized nation with about 44 million people, 30 percent of the world's most fertile farmland, and one of the most repressed economies in the world. This article belongs to a [series](#) which has treated several ex-Soviet-bloc countries—Poland (Machaj 2015), The Czech Republic (Šíma and Nikodym 2015), and the ex-Yugoslav nations (Prokopijević and Tasić 2015). The Ukraine story fits broad patterns for ex-Soviet regions.

Central to (classical) liberalism is the idea of liberty, others not messing with one's stuff, along the lines of John Locke and Adam Smith. But liberalism understands that central idea as something defeasible, as something everywhere with some unique contours from a unique history, and as something always embedded within jural and institutional systems, themselves coexisting with a societal system of morals and culture. Liberalism gains coherence when it can reasonably suppose a suitable social constitution—a national identity, a reasonable degree of jural integrity ('rule of law'), stable and reasonably honest political institutions, and liberal virtues in the populace.

But such a liberal matrix was never strong in the regions that came under the Soviets. Prior to such domination, those regions had only modest numbers of liberal-oriented intellectuals and political figures, who should not be forgotten. With Stalin, all such activity was squashed or driven underground. Then, after Soviet domination, the countries made some transition, and liberalized somewhat, but without high stability in the political order, and never with a social constitution of much liberal maturity. The transition period has left many unsatisfied; some say that the reforms were corrupt, incompetent, incomplete. Be that as it may, one

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needs to understand that in such countries the social matrix for liberal functioning has always been weak, and it remains so. Corruption, privilege, and protectionism remain the norm, and any liberal developments something to be explained. Since the 1990s the regions have sprouted some liberal activity, such as centers and think tanks, and a few academics and public intellectuals.

We offer a chronological account of liberal thought in Ukraine, from the nineteenth century down to 2017, but first provide some general socio-economic background about Ukraine. Quotations presented here in English from non-English sources are of our own translating.

Some background about Ukraine



A map of modern Ukraine (*Source*: CIA World Factbook 2017)

Since the earliest civilizations, individual farming was more widespread in Ukraine than in Russia because both fertile soil and favorable climate conditions significantly increased individual agricultural productivity in Ukraine (Subtelný 2009; Conquest 1986; Hrushevs'kyi 1941). In Russia, mainly to the north of Ukraine, poor sandy soil and harsh climate made farming more difficult. The growing season was shorter in Russia by at least a month, and Russian peasants historically tended to farm collectively while Ukrainian peasants could often farm individually (Subtelný 2009). In the mid-nineteenth century, over 85 percent of the peasants in Eastern Ukraine (under Russian rule) and almost 70 percent in Western Ukraine (under Austrian rule) worked individual homesteads. By contrast, 95 percent of Russian peasants worked and lived in communes (*ibid.*, 256).

In the late nineteenth century, the Ukrainian socialist revolutionary Mykola

Starodvorsky complained that in Ukraine “matters are different. Our people are bourgeois because they are permeated by the instincts of private ownership” (quoted in Subtelny 2009, 361). Socialists and rural-commune romantics (*narodnyky*) regarded the Ukrainian village as the main obstacle to the spread of their ideas throughout Eastern Europe.³ Starodvorsky pointed out that the national inclination toward private ownership meant that Ukraine “might serve as a barrier to the spread of the socialist idea in Russia” (ibid.).

For centuries, Ukraine lacked indigenous ruling elite. For several centuries, before the Soviet period, Ukraine developed politically and intellectually under the reign of two empires, the Habsburgs and the Romanovs. The gap in political development was tremendous. The Habsburgs had started emancipation of serfs and mass land reform in the 1780s, and transitioned to constitutional monarchy in the mid-eighteenth century. The Russian monarchy emancipated serfs only in the 1860s, and constitutional monarchy was established only after the “Bloody Sunday” Revolution of 1905 (Subtelny 2009).

Liberalism in Ukraine before the Soviet period

Very few of the Western-oriented thinkers of pre-Soviet Ukraine are still remembered or even known. Nonetheless, the several decades running up to the First World War witnessed a vibrant ferment of non-Marxist thinkers mixing ideas of liberalism, democracy, nation-formation, and socialism, thinkers such as Mykhaylo Drahomanov, Ivan Franko, Bohdan Kistyakivsky, and Mykhaylo Tugan-Baranovsky. Their thought can be said to have had unifying features in the rejection of Marxist socialism, opposition to imperialism, and a varying embrace of liberal economics. They believed that nation’s gradual social change toward liberalism should be grounded in West European values.

But they also addressed the very important questions of state-building, stable politics, self-determination, and avoiding war, particularly with the Russian empire. These thinkers most certainly did not have the luxury of presupposing a stable polity, insulation from foreign powers, a strong tradition of liberal culture, and so on. East European intellectuals in general developed their thinking in view of the liberalism that unfolded in the Habsburg Empire (Śima and Nikodym 2015; Machaj 2015).

3. A radical movement of youth intelligentsia, *narodnyky*, emerged in the Russian empire in the 1860s. It idealized the people of peasant and rural communes (*narod*), because the rural social order seemed to demonstrate the peasant’s natural opposition to self-interest and inborn tendency toward socialism (Subtelny 2009).

Mykhaylo Drahomanov

Mykhaylo Drahomanov (1841–1895) formed the nineteenth-century Ukrainian liberal movement (Tomenko 1996, 74). He was a thought leader, mixing democratic, anarchistic, socialist, and liberal ideas, and whose thinking tended toward rationalism and secularism (Rudnytsky 1952, 71). Drahomanov graduated from and worked as a Docent of Ancient History at Kyiv University until he was dismissed in 1876 for political activity and was forced to leave the Russian empire. In Geneva from 1876 to 1889, he founded the first Ukrainian-language socio-political journal, *Hromada*, lasting 1878 to 1882, which was read in both the Austrian and Russian empires. He spent his last years as a professor of history at Sofia University in Bulgaria. He influenced Ukrainian and Russian liberals of later generations, including Franko, Kistyakivsky, and Sergei Witte, who was the first Russian Imperial Prime Minister (1905–1906) and one of the co-authors of the first Russian Constitution (1905).



Drahomanov

The leitmotif of Drahomanov's thinking, perhaps, is the promulgation of a Europe-spanning ethic against one power dominating and intervening in the affairs of its neighbors. He projected a vision of peaceful, trading, and increasingly cosmopolitan European nations. His political vision revolved around the distinction between government and civil society, the idea of spontaneous forces, and emergent institutions. He rejected the dialectical method of history and criticized Marxist political philosophy. Influenced by Aristotle's idea of corporatism, Drahomanov envisaged a social order as a socially cooperative union of language-based voluntary associations that would establish a socio-political equality among all European nations. That is, he called for a federation of European nations. Social reform should be based on the principles of cultural rationalism, political federalism, and social democracy; social reform should pursue public education, intellectual progress, and secularization (Drahomanov 1937/1878). To Drahomanov, federalization of European nations will lead to a peaceful liberalization of stateless nations such as Ukraine. He saw liberalization as a spontaneously emergent process that evolves in a system of voluntary associations of individuals (i.e., his concept of civil society) and moves from the bottom up by gradually eradicating the state as an institution of coercion. The goal is "to reduce the power of the government and make it subservient to individual and community and to lay down the living rule of law of anarchy, and to free the rule of law from aristocracy and state" (ibid.).

Ivan Franko and Bohdan Kistyakivsky

Ivan Franko (1856–1916), a disciple of Drahomanov, earned a Ph.D. in History from the University of Vienna in 1893. An educated son of the peasantry, Franko wrote his work in Ukrainian, Polish, Russian, and German. He had good relationships with Polish, German, and Austrian liberals. For ten years he was a member of the editorial board of the Polish newspaper *Kurjer Lwowski* (Rudnytsky 1967, 143). He also contributed to several German-language journals. Franko was a regular correspondent for the Viennese democratic weekly, *Die Zeit*, reporting about conditions and development in Galicia.



Franko

Bohdan Kistyakivsky (1868–1920), another disciple of Drahomanov, received a Ph.D. in History from the University of Strasbourg in 1899, where he studied under the supervision of Wilhelm Windelband (1848–1915). He was a son of Oleksandr Kistyakivsky, a Professor of Law at Kyiv University and an active member of the Hromada of Kyiv, the leading organization of the Ukrainian liberal movement (Tomenko 1996, 74). Both Franko and Bohdan Kistyakivsky were the leading members of the Shevchenko Scientific Society, established in 1873 (*ibid.*, 75). The Shevchenko Society included foreign members such as R. F. Kaindl, an Austrian representative of the German Historical School from the University of Czernowitz.



B. Kistyakivsky

Franko and Kistyakivsky to some extent dissented from the *Social-Politik* trend in Europe, in that they held more liberal views regarding the role of the state in society. To them, social reform served as a means of nation-building to overcome a condition of statelessness. Franko studied the social reforms implemented by the eighteenth-century Austrian rulers Maria Theresa and Joseph II, and he supported active social policy but he advocated limited government. Likewise Kistyakivsky, in his dissertation *State and Individual* (1899), rejected an active social policy, instead proposing to limit government to protecting life, liberty, and property under the rule of law. Notably, both Franko and Kistyakivsky rejected legitimacy of the sovereign's monopoly over coercion and supported universal suffrage.⁴

4. In mid-1800s Western Europe only 'radical' liberals such as John Stuart Mill favored universal suffrage or parliamentary dominance in the king-parliament relationship (Congleton 2010, 230).

Franko had formulated his political theory in *What Is Progress?* (1903), which was in juxtaposition to Vladimir Lenin's 1903 Address to the Congress of the Russian Party of Social Democrats. Contra Lenin, Franko argued that inequality was an integral feature of the driving forces of human progress. Competition was foundational in human nature, and it always and naturally caused inequalities. The division of labor is another essential ingredient of human progress, even though it produced a social hierarchy. Like many East European liberal thinkers, Franko regarded the tension between liberty and outcome-equality as a problem to be managed, calling for judicious balancing. Franko was a strong opponent of Marxist Socialism, which he argued had a natural inclination toward interventionism and totalitarianism:

In general, the omnipotence of communist state, as formulated in all ten points in of Communist Manifesto (1848, 33), would lead to the triumph of new bureaucracy over society and all aspects of social, material, and spiritual life. (Franko 1904)⁵

Franko questioned Marxist political philosophy and its acceptance by East European social democrats:

Trust in an omnipotent state in future society is the main feature of social democracy. According to this belief, every person will be a public employee... the state will give him all necessary things; assign him an occupation; incentivize and reward him; and when he gets older or sick, the state will feed him... Who will guard the guardian? Who will rule the state? Social democrats do not tell us anything ... there would be no exploitation of workers by capitalists but there would be the omnipotence of bureaucrats—it does not matter whether they are aristocrats or elected—who would be in control of millions of citizens. If they hold such a great power for a short period of time, it will be so easy for them to seize it forever! (Franko 1917/1903, 53–54)

5. Max Weber (1995/1906, 89), who was well-informed about the political situation in Tsarist Russia, shared Franko's concern that Russian socialist revolutionaries would lead Russia on the centralist-bureaucratic path.

Mykhaylo Tugan-Baranovsky

Mykhaylo Tugan-Baranovsky (1865–1919), born of an aristocratic family in Kharkiv province in Eastern Ukraine, was an historian and political economist, and a representative of pluralist thought (Nove 1970, 246). His study of British industrial development and his theory of business cycles were held in high esteem by scholars such as Joseph Schumpeter (Blaug 1986, 43). Influenced by Marxism as a youth, Tugan-Baranovsky's political thought evolved into an eclectic theory under influence of Neo-Kantianism, Darwinism, and classical economics. He read Carl Menger, used ideas of organic evolution in his work on cooperation, and used marginal-utility theory of value in his critique of Karl Marx's labor theory of value (Kachor 1969). He argued that a combination of marginal-utility and labor theories of value explains a concept of value (Nove 1970, 254).



Tugan-Baranovsky

In his article “Russian Intelligentsia and Socialism” (1910) Tugan-Baranovsky argued that liberalism had no future in Russia because the ruling elite and the peasants held egalitarian and anti-bourgeois beliefs. He wrote that Russian intellectuals demonstrate a backward thinking by regarding institutions of capitalism as artificial and institutions of the “ancient regime,” upholding communal agriculture-based economy, as natural (Nove 1970, 251). Moreover, his eclectic theory of value maintained that proper analysis of surplus value called for an ethical approach. Thus, Tugan-Baranovsky proposed a social order that would keep balance between liberty and equality. Tugan-Baranovsky (1907) called that order “correct socialism” and argued that it would preserve equality, liberty, and market economy. Correct socialism would combine liberal economic principles and socialist political principles. The main instrument of correct socialism is cooperation that joins socialist welfare with private enterprise.

Tugan-Baranovsky was impressed with the wave of the Russian cooperative movement, which started in Kharkiv in 1811 and preceded the Rochdale cooperative in England. Tugan-Baranovsky grew up in the Kharkiv province and graduated from the Kharkiv University (now V. N. Karazin Kharkiv National University), which was established by prominent cooperator Vasily Karazin (1773–1842). In 1854, before Tugan-Baranovsky was born, the biggest agricultural cooperative in the Russian empire was Kharkiv-based cooperative Kharkivskoe Tovarishestvo (Ancyferov 1929). The cooperative started its operations with fourteen regional offices across Ukraine and Russia. In 1912 it grew into the biggest cooperative in Eastern Europe with thirty four regional offices, including a wholesale store in the U.S. city of Minneapolis (*ibid.*). These developments

influenced Tugan-Baranovsky's thinking on cooperation.

In *Social Foundations of Cooperation* (1916), Tugan-Baranovsky envisioned a free enterprise setting but argued that within such a setting the cooperative, providing a social safety net to its members, would succeed as a profit-maximizing enterprise. He argued that agricultural cooperatives would help individual farmers to utilize economies of scale and jointly increase agricultural output. Tugan-Baranovsky referred to agricultural statistics for the period 1861–1910 that showed that landlords achieved higher harvest yields than peasant households and that the difference between them increased (Nove 1970, 260). He maintained that cooperation (or joint decision-making) could also help to establish a democratic decentralized political system, which would be similar to federalism. Tugan-Baranovsky's work represents an attempt—a desperate one, perhaps—to reconcile the discordant aspirations of political community, political stability, outcome-equality, and free enterprise.

Purges against liberal thinkers under Soviet rule

The tide of the Ukrainian liberalism ebbed in the early twentieth century. Tugan-Baranovsky left his appointment as the chair in political economy at St. Petersburg University after the February Revolution of 1917, became dean of the Faculty of Law at Kyiv University, and served as head of the Ministry of Finance of the Central Rada (1917–1918), a short-lived Ukrainian government (Nove 1970, 247). The Soviet rule eradicated the liberal movement in Ukraine (Pipes 1990). But in the 1920s a Russian classical liberal, Alexander Chayanov (1888–1937), applied Tugan-Baranovsky's private-enterprise theory of cooperation in debate with Lenin (Chayanov 1917; 1919; Lenin 1973/1923). The debate influenced Lenin's decision to replace the War Communism Policy (1918–1921) with the more liberal New Economic Policy.⁶ After the death of Lenin in 1924, the Soviet government under Joseph Stalin reversed the New Economic Policy, imprisoned Chayanov for a political crime in 1930, and executed him in 1937. The Soviet government proceeded to prosecute non-Marxist thinkers en masse (Nove 1970, 262). In Soviet Ukraine, farmers resisted the farm collectivization and the nationalization of church property. To suppress an outbreak of resistance, the Soviet government

6. The New Economic Policy gave peasants usufruct private property rights (i.e., sale and bequest are prohibited) in agricultural land and allowed peasants to utilize farmland, to lease it, and to sell their farm produce at market prices. Joseph Stalin, Lenin's successor, feared that the thriving agricultural economy would lead to the rise of the bourgeois nationalism in the Soviet Ukraine.

implemented the Terror-Famine policies,⁷ which in 1932–1933 killed between three and six million Ukrainians (Applebaum 2017; Subtelny 2009; Conquest 1986; Naumenko 2017).

The establishment of a totalitarian communist regime under Soviet rule eradicated in Ukraine the liberal ideas that had been popularized at the beginning of the twentieth century. The Soviet economic system prohibited private ownership of the means of production and free-enterprise economy in general. According to Marx's theory of social order, the economy served as the basis, the political and legal system were the superstructure, and the prohibition of private ownership of the means of production was the building block of the socialist society. Both the 1936 and the 1977 Constitutions of the Soviet Union only recognized "socialist property" (e.g., state enterprise and collective farming) within the socialist economic system.

The Soviet authorities suppressed any academic discussion that supported ideas of economic liberalism, capitalism, and market economy. The Stalinist purges of liberal economists such as Chayanov removed ideas of economic liberalism from the public discourse. The dissident movement of the 1960s and 1970s that mainly consisted of writers, artists, scholars, and journalists was a case in point. While the dissidents advocated for civil liberties, human rights, and protection of ethnic minorities, they avoided any discussion of private property rights and free enterprise (Bazhan 2004). Moreover, the Liberman economic reform that took place in the 1960s, introducing a concept of profit-loss calculation into the socialist economy, never touched on the essential ideas of economic liberalism. The reform focused on changes in the method of economic planning and the incentive system of the Soviet enterprise manager (Pejovich 1969). Ideas of economic liberalism remained as left by pre-Soviet thinkers such as Drahomanov and Franko, if not simply lost and forgotten.

The post-Soviet economic and political environment

As an instance of post-socialist transition in Central and Eastern Europe, Ukraine has been one of the least successful, plagued by state capture and rent-seeking (Hellman 1998; Åslund 2007; Åslund and de Ménéil 2004). Something of an oligarchic elite emerged from the old Communist elite, enriching itself by privatizing what had been state property (Subtelny 2009), setting up monopolized

7. See Stalin's speech published in *Pravda*, December 27, 1929.

industries, curbing civil liberties, and neglecting the rule of law. The stated main objective of the Ukrainian privatization was to reduce the size of the government sector and to incentivize private sector growth (Paskhaver et al. 2008). The private-sector share of GDP increased from 35 percent to 85 percent between 1994 and 2008, and the private-sector share of the labor force grew from 16.1 percent to almost 86 percent between 1994 and 2008 (World Bank 2017).

The political system has fluctuated between unstable democracy and incoherent authoritarianism (Center for Systemic Peace 2014; Freedom House 2018). Looming over the Ukrainian situation is a general lack of confidence in the permanence and integrity of political institutions. Furthermore, the rules of the game are shaky at the highest constitutional level, and that makes it very hard to create the necessary confidence to invest for the long term and develop a trusting, open commercial culture. In 2007, a public opinion poll reflected public distrust in the government institutions, as 83 percent of Ukrainians stated that the government was thoroughly corrupt (Subtelny 2009). The criminal justice system enjoyed the lowest approval rating, 8 percent. Only 18 percent had trust in the electoral process.

The Hayek-Friedman hypothesis states that economic freedom is a necessary condition for political liberalism (Lawson and Clark 2010). Economic freedom promotes important norms of individual rights, tolerance, and respect for the rule of law. Such norms foster an attitude and expectation of government accountability and moderation (Diamond 1999). But today interventionism is tremendous. For instance, more than 200 laws regulate the agricultural sector in Ukraine (Krasnozhon 2013). In 2015 Ukraine's index of economic freedom ranked 149th out of 159 countries, while other post-socialist countries such as the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and the Slovak Republic were either in the freest quartile or in the second quartile (Gwartney, Lawson, and Hall 2017). Ukraine is also ranked among the most highly corrupt countries, being 131st out of 176 countries according to Transparency International ([link](#)).

Economic liberalism in post-Soviet Ukraine

A revival of Ukrainian interest in economic liberalism started after the collapse of the Soviet Union. The most influential liberal thinkers today are representatives of the old generation who introduced market reforms in the 1990s: Oleksandr Paskhaver, Viktor Pynzenyk, and Volodymyr Lanovyi. There are also several organizations that promote economic liberal ideas in Ukraine: the Liberal Economic Club, the Bendukidze Free Market Center, and others. Overall,

Ukrainian liberal thinkers share a common vision of economic liberalism that highlights culture as an ingredient in the aspiration for a liberal and politically stable Ukraine. On the whole, however, in public discourse, in government, and in academia, there are few voices in Ukraine articulating the central ideas and long-run vision of classical liberalism. These liberal thinkers are, alas, less well integrated in the European liberal movement than their nineteenth-century predecessors had been.

Oleksandr Paskhaver

Oleksandr Paskhaver (b. 1945) is one of the architects of the Ukrainian privatization. In the early 1990s he left a public-sector think tank, the Institute of Economics at the National Academy of Sciences of Ukraine, where he had served as a senior economist since 1971. Paskhaver then founded a Kyiv-based think tank, the Center for Economic Development. He is a public intellectual who contributes regularly to mass-media outlets. Paskhaver also has served as an economic advisor to several Ukrainian presidents. Paskhaver supports privatization and economic liberalization, but he thinks that wealth inequality can exacerbate problems of political instability.

Paskhaver leads a small group of liberal economists at the Center for Economic Development (CED). The CED mainly monitors privatization. Paskhaver often speaks out in defense of privatization because public opinion strongly opposes any further privatization reform. Since the early 1990s, public support for privatization has drastically decreased in post-Soviet countries; it is said that more than one half of the population in each of the 28 post-socialist countries supports reconsideration of privatization (Denisova et al. 2009). In 2005, a public opinion survey showed that 60 percent of Ukrainians strongly disagreed with the large-scale privatization (Paskhaver and Verkhovodova 2006). Between 1992 and 2006 public approval of land privatization dropped from 65 percent to 25 percent, and in 2006 only 21 percent of Ukrainians strongly supported economic liberalization of the market in agricultural land, as compared to 39 percent in 1992 (Panina 2006).

Paskhaver says that Ukrainians expected to enrich themselves through privatization. The policymakers expected that privatization would incentivize faster transition from command economy to free market economy. Paskhaver and Lidia Verkhovodova (2006) write that privatization produced oligarchs who captured the industrial “commanding heights”—steel, coal, heavy machinery, etc.—and disrupted democratization. Still, argues Paskhaver (2003), the privatization has been movement in the right direction—reducing government control of the economy.

Moreover, privatization and economic liberalization consolidated new Ukrainian ruling elites. Many of the players and networks had been junior members of the former Soviet establishment. Soviet Ukraine had been one of four top steel producers in the world. Steel products constitute about 40 percent of Ukraine's total exports. As a result, the oligarchic elite emerged from industrialized regions of Donetsk and Dnipropetrovsk with steel mills, coal mines, and chemical and heavy machinery factories. In 2002 about 300 of the MPs in the 450-member legislature had personal wealth equivalent to a U.S.-dollar millionaire (Subtelny 2009).

Paskhaver argues that the rise of oligarchs is a result of the institutional path of development in any post-Soviet country with a culture of paternalism and corruption. In Ukraine the erstwhile Soviet apparatchiks who had been de facto owners of public enterprises reclaimed that control. To Paskhaver, it shows that in the socialist economy neither farmers nor workers nor 'the people' were de facto owners of farms and factories—the apparatchiks were.

Paskhaver suggests that post-Soviet countries skipped an essential stage of social contract that would establish rules of the game. Paskhaver argues that neither the citizenry nor the government itself can reach much agreement on what government should do and is able to do because the post-Soviet polity lacks European political culture. By contrast, the state and the citizenry came to an informal understanding or social contract of *noncompliance* with the rule of law (Paskhaver and Verkhovodova 2006, 312). In the 2014 book *Who to Be*, Paskhaver argues that the market reforms in Ukraine had a low degree of institutional stickiness because the necessary cultural values were not deeply rooted in the nucleus of the post-Soviet culture:

Market reforms require European cultural values. (Paskhaver 2014, 12)

Liberty and rule of law, the highest social values, are essential for competitiveness, economic growth, and quality of life. (ibid., 36)

Those who wish to actively promote the Europeanization of Ukraine should not wait for the top-down reforms but they should try to change the situation themselves—by including European social values in a national identity—not from the top down, which is impossible, but at will. (ibid., 98)

Viktor Pynzenyk

Prior to 1992, Viktor Pynzenyk (b. 1954) had been an academic economist, at the Ivan Franko National University in L'viv, serving as chair of the department of economics and public administration. He would emerge not only as a public intellectual, appearing often on television and in media to espouse economic

freedom and liberal principles, but as the symbol of the economic liberalization of the 1990s. He belongs to the generation of Central and East European market reformers such as Leszek Balcerowicz in Poland and Ivan Mikloš in Slovakia.⁸ In 1991 Pynzenyk was elected as the Member of Parliament. Pynzenyk held government positions including Minister of Economy, Vice Prime Minister, and First Vice Prime Minister between 1992 and 1997.

Pynzenyk's political career has been fitful—he has repeatedly entered government in the hope of leading reform, only to exit promptly from frustration and disappointment. As a Minister of Economy, beginning 1992, he advocated shock-therapy economic liberalization, decreasing income-tax rates, decentralization of the state budget, market-based competition for government contracts, direct welfare payments to the poor, and cessation of industry and farm subsidies. In 1993 Pynzenyk resigned from the government, and then in 1994 he returned to the government to continue his efforts to advance market reforms.

In the spring of 1997 Pynzenyk proposed a bill that would cut the number of types of business subjected to licensing by a factor of four, to establish a single-step business licensing scheme, to reduce the number of custom forms to just four documents, to lift all restrictions on money transfers, to cut the tax burden in half, and to reduce the top marginal income tax rate to 32 percent. The bill was aimed at amending more than one hundred laws. But it did not pass a parliamentary vote. Pynzenyk resigned, citing growing conservatism in the government.

In the 1998 parliamentary elections Pynzenyk led a liberal party (Reforms and Order Party), which failed to reach the electoral threshold. Between 2005 and 2009 Pynzenyk returned to the government to serve as Minister of Finance. He twice resigned from the position because his liberal economic policy failed to receive strong support. In 2014 Pynzenyk was elected as the Member of Parliament and joined a pro-presidential party (the Petro Poroshenko Bloc).

In a 2011 essay, "Man and State," Pynzenyk presented his vision of economic liberalism. He writes that the size and scope of "social protection" by government is correlated with the preeminence of bureaucracy, but the post-Soviet public cannot grasp that insight. On the one hand, most citizens believe that the state may do whatever citizens want it to do and that all such state functions are legitimate. On the other hand, citizens are hamstrung and depressed when bureaucracy and government play major roles in their lives. The effect of paternalism is, however, generally unseen by the general public. Pynzenyk (2011, 50) says that a government that does what citizenry wants it to do does not exist. As he argues, political power always corrupts government. Thus, delegation of power from citizenry to state needs to be constrained by a system of checks and balances. "The best way of

8. In 2014–2015 Balcerowicz and Mikloš served as advisers to the Ukrainian President Petro Poroshenko.

reducing government embezzlement,” Pynzenyk writes, “is to reduce the number of government services and the size of bureaucracy” (*ibid.*, 54).

Pynzenyk (2011) writes that voters seem to ignore the fact that they are taxpayers and they are the main source of government revenues. Citizens pay income tax, value-added tax, sales tax, excise tax, and so on. Pynzenyk recommends simplifications to the tax code, reduction of top rates, anti-corruption measures, and so on. Furthermore, Pynzenyk suggests that basic services that government itself should produce—national defense, foreign affairs, infrastructure, welfare system, environmental protection, and natural disaster relief—should not be commercialized, that is, that they not be financed by user fees (2011, 54–57). But that principle perhaps reflects his desire to keep the government-production sector small and limited. Pynzenyk argues that citizens must pay for education and health care without any government support. He proposes to introduce an income-based, means-tested welfare system to replace the current universal approach to welfare payments. Pynzenyk advocates individual retirement plans in place of the state-run pension system. He writes that the individual should have and learn responsibility for his own financial planning.

Volodymyr Lanovyi

Volodymyr Lanovyi (b. 1952) is a co-founder of the Center for Economic Development, has held several government positions, and has served several terms as MP. He started his political career in the former Soviet Union as the Minister of Property and Entrepreneurship of the Ukrainian Soviet Socialist Republic. As the Minister of Economy of Ukraine, he was a strong supporter of the so-called Washington Consensus and he was one of the architects of the market reforms (Lanovyi 2000). Lanovyi has recently revised his position on the Washington Consensus. He acknowledges that the former apparatchiks controlled the privatization and that the process has produced a sort of oligarchy. Lanovyi (2012) argues that protectionism and economic conservatism was in the interest of those who control the state and receive politically privileged economic rents from their quasi-private ownership of the commanding heights of the Ukrainian economy. He proposes a set of anti-oligarchic economic and administrative reforms, for example greater transparency, openness and accountability to review, monitoring by NGOs, and so on.

Liberal organizations

Besides the Center for Economic Development, there are few organizations that promote ideas of economic liberalism in Ukraine. In 2004 several economists

from L'viv-based academic institutions founded an informal association of liberal economists, the Liberal Economic Club (Liberal'nyy ekonomichnyy klub).⁹ It popularizes ideas of personal liberty, market competition, and economic liberalism. One of its founders, Viktor Borshchevsky, has been a strong supporter of West Germany's postwar economic reforms, Reaganomics, Thatcherism, the Chilean market experiment, and more recent market reforms in Poland, China, and Georgia. His thinking has been influenced by the German ordoliberals Walter Eucken and Ludwig Erhard, as well as by Ludwig von Mises and Friedrich Hayek. Borshchevsky appears on television and teaches seminars and public courses. He has argued that the Ukrainian government is incapable of reforming itself, and that we should look for broader social change to bring on proper bourgeois and liberal attitudes, which might then make governmental reform possible (Borshchevsky 2015). A bureaucrat, even a diligent one, is incapable of doing what an entrepreneur is capable of: "It takes at least one-third of Ukrainians to realize that populism is full of empty promises and entrepreneurs are the real force behind any economic change." Ukrainians need a cultural change, away from the widespread acceptance of paternalism (Borshchevsky and Zlydnyk 2013).

Vasyl Magas, another co-founder of the Liberal Economic Club, represents one type of character among the young generation of classical liberals. An assistant professor of economics at the Ivan Franko L'viv National University, he is critical of the old generation of liberals such as Pynzenyk and Paskhaver because they were the architects of reforms that purportedly created oligarchy and transferred most of nation's wealth to former apparatchiks. Magas argues that economic policy is protectionist and conservative because oligarchs control it. He points out that bureaucracy has increased since the 1990s while its efficiency has drastically declined, and he asserts that lawmaking is oligarchic in Ukraine. In his view the Ukrainian state is the arena in which business conflicts among oligarchic groups are negotiated and managed, for the benefit of those who are party to the proceedings. The only economic means to weaken the oligarchy are international openness and absence of import tariffs (Magas 2016a). Magas also argues that Christianity and nationalism complement liberalism, and that an ideal social order should combine liberalism, nationalism, and Christianity in order to uphold liberty, individual responsibility, and social cooperation (Magas 2016b).

In 2014 the Kyiv School of Economics-affiliated think tank Bendukidze Free Market Center (henceforth Bendukidze FMC) was founded in honor of Georgian policymaker Kakha Bendukidze (1956–2014). Bendukidze served in the Mikheil Saakashvili administration between 2004 and 2009. The success of the Georgian market reforms is often attributed to him and to his main principle of "everything

9. Liberal Economic Club has a Ukrainian-language website ([link](#)).

is for sale but conscience.” In 2014 Bendukidze joined the Expert Council of the Ministry of Economy of Ukraine. Several weeks before his death, Bendukidze and a team of international experts, including Daron Acemoglu of MIT and Anders Åslund of the Peterson Institute, prepared a package of market reforms (Acemoglu et al. 2014). One of the co-founders of Bendukidze FMC is Oleksandr Danylyuk, former Deputy Chief of Staff to the President of Ukraine and the current Minister of Finance of Ukraine. The Bendukidze FMC is a member of the Atlas Network and co-organizer of the Free Market Road Show in Ukraine. The center’s mission is “to promote liberty, limited open government and free market” ([link](#)). Saakashvili, the former President of Georgia, is another co-founder of Bendukidze FMC.

Online communities also popularize ideas of economic liberalism. One such community, Austrian School of Economics in Ukrainian ([link](#)), was started by a group of Ukrainian libertarians in 2010. Its Ukrainian-language website provides a free online library that contains translations of works by Mises, Hayek, Murray Rothbard, and several latter-day ‘Austrian’ economists. Another online community is provided by Krayina Liberalna (“Liberal Country”), an NGO launched in 2008 that promotes liberalism and claims to represent the middle class ([link](#)). In its 2011 mission statement, Krayina Liberalna declared that an ideal liberal society should have its foundations in parliamentary republicanism and the common-law system ([link](#)). Krayina Liberalna is a strong supporter of market reforms, including lowering the number of business types requiring licensing to about thirty, complete privatization of public land, liberalization of the market in farmland, and privatization of government services such as health inspection and firefighting.

Economic liberalism in higher education

Economics education in Ukraine is quite disconnected from philosophy and political science. Economics is taught as an applied business major with a focus on banking, accounting, and computer skills. Ukrainian economics education is also out of touch with economics education in English-speaking countries, because a proficiency in English is not a requirement for a bachelor’s degree. Very few Ukrainian economists can read English-language economics literature. In 2016 the Department of Education added a proficiency in English to the list of requirements in fulfillment of a tenure-track promotion towards associate and full professorships across all disciplines. The number of applications for these ranks subsequently dropped by hundreds.

The Kyiv School of Economics (KSE) and the Kyiv Mohyla Academy (KMA) are the only universities in Ukraine where English is one of the instructional languages. KSE offers two master’s programs jointly with the University of

Houston, such that KSE graduates receive M.A. degrees from the University of Houston. KSE prides itself for being “the only institution in Ukraine at which faculty members hold a Ph.D. degree from reputable Western universities.” Faculty of the KSE mainly teach applied economics. Most of the KSE graduates pursue academic careers outside of Ukraine or work for international companies.

The KMA has some strands of liberal economics. In the early 1990s Professor Yuriy Bajal, chair of Economics, was one of the main advocates of the Washington Consensus. He supported market economy and minimal state intervention. Bajal has changed his research interests from economic liberalization to institutional analysis of economic development with a focus on technological change. He also revised his position on the role of state in economy. Bajal (2000) argues that some government support and protection—tax breaks, subsidies, tariffs on high-tech imports—is needed to boost technology firms and innovation.

To our knowledge, few academic economists in Ukraine articulate the principles of economic liberalism or treat the economic evidence on the matter. One location of liberal scholarship is the L'viv Regional Institute of Public Administration (LRIPA). The political science professor Mykola Bunyk, one of the present authors, teaches a course on bureaucracy, focusing on the work of Mises, John Stuart Mill, and John Locke. LRIPA has hosted a series of conferences dedicated to Mises. The first conference, in 2011, brought together economists, political scientists, philosophers, and mathematicians from eight countries. The conference ended with the unveiling of a plaque at Mises's birthplace, which was discovered by Bunyk, Olga Kotovska, and Roman Skaskiw (Laer 2011; Bunyk and Skaskiw 2011).

Also in L'viv is the Ivan Franko National University, where Magas is an associate professor of economics. He disseminates ideas of liberalism and researches in particular Ukrainian agrarian reform. In L'viv, Borshchovsky is a part-time lecturer at the Ukrainian Catholic University. The main area of his research is agriculture. He advocates for a package of agricultural market reforms, including modernization of infrastructure in rural areas, decentralization of fiscal policy, decentralization of local government, increasing self-governance in rural communities, and qualitative improvement of education in rural areas. Borshchovsky also holds a public office at the Ukrainian National Academy of Sciences and he is an officer at the Dolishny Institute of Regional Studies.

Some recent developments 2008–2017

In 2013–2014 Ukraine experienced the greatest political crisis in the post-Soviet period. On November 21, 2013, then-President Viktor Yanukovich

rejected the signing of the Association Agreement and Deep and Comprehensive Free Trade Agreement with the European Union. The agreements would have broadened economic and political ties between Ukraine and Europe and would bring Ukraine closer to European economic and political values. By February 2014 a growing protest movement turned into the Revolution of Dignity and led to the fall of the Yanukovich presidency. In March 2014 the government of Russia, which backed the ousted President Yanukovich, annexed the Crimean peninsula—almost five percent of Ukraine’s territory. The political crisis sent Ukrainian economy into recession: Real GDP per capita contracted by a cumulative of 16 percent over the two-year period (World Bank 2017). In March and June 2014, respectively, Ukraine signed the Association Agreement and Deep and Comprehensive Free Trade Agreement with the European Union.

Ukraine is one of very few economies from the post-socialist bloc which has not recovered since the supply-side recession that followed the end of socialism (Shleifer and Treisman 2005). Ukraine’s GDP per capita (PPP) decreased from \$9,564 in 1991 to \$7,668 in 2016 (World Bank 2017). Public opinion surveys demonstrate that government institutions and market reforms receive the lowest approval rating (Subtelny 2009). Forty-three percent of Ukrainians favor renationalization (Denisova et al. 2009). According to the 2015 World Values Survey, residents of western and central Ukraine strongly supported values of individual liberty and individual responsibility; by contrast, paternalism and social welfare enjoyed the highest approval among residents of southern and eastern Ukraine. However, younger respondents (ages 18 to 35) in all regions of Ukraine strongly supported individual liberty.

Concluding remark

Economic freedom in Ukraine has hit rock bottom in the world rankings and it has remained there for years. For the most part, ideas of economic liberalism have fallen on deaf ears. Economic freedom, rule of law, and market economy are essential ingredients of the kind of liberal political change that the government has not yet completed following the collapse of the Soviet Union. Ukraine has gone from one political crisis to another, while other post-socialist countries such as Poland and the Czech Republic have more successfully formed and maintained liberal democracies and market economies.

Still, there is always hope of wiser actions and better fortunes ahead.

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Liberalism in Ecuador

Pedro Romero¹, Fergus Hodgson², and María Paz Gómez³

[LINK TO ABSTRACT](#)

We offer an account of liberalism in Ecuador, past and present. Other Latin American countries treated in the [series](#) to which this article belongs include Mexico (Kuchař 2016), Guatemala (Marroquín and Thomas 2015), and Venezuela (Faria and Filardo 2015). Every country has her own story, but the Ecuador story likewise features a Spanish colonial legacy, a political system that is notably corrupt and unstable, and a poor understanding of liberal ideas and relatively little sympathy in the population. Still, the liberal drama is alive in Ecuador, and worth attending to.

Colonial history of subjugation

Ecuador is a country divided into three regions by the Andes cordillera: the Pacific Coast, the Sierra, and the Amazonian region to the east. Before the arrival of the Spaniards in the 1530s, the territory had been, for about 50 years, under the control of the Incas. But the dominion of the Incas was mostly limited to the highlands (the Sierra), since Incas were more accustomed to that environment. Their attempts to subjugate people from the coast met not just local tribes' resistance but also intolerable weather conditions, and the eastern region was relatively uninhabited.

Civil war between the two heirs to the Incan Empire—Atahualpa and Huascar—enabled the Spaniards to claim the kingdom with surprising ease. Atahualpa had ruled the whole empire for only a few years without establishing

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strong loyalties. After Francisco Pizarro killed Atahualpa in 1533, the European conquerors took over the entire territory. However, they decided to locate mostly on the highlands of Ecuador—centered in Quito, the capital—leaving the coast only for establishing ports.

During the Spanish conquest, the colonizers subjugated local people with similar social institutions already put in place by the Inca rulers. One of these was the *encomienda* system, a royal grant to a Spaniard to control a given number of indigenous people from conquered communities. The main purpose was to secure forced labor and the payment of taxes from the indigenous population in purported exchange for instruction in the Christian faith and protection. The heirs of the original *encomendero* held this grant in perpetuity.

The system of Spaniard overlordship facilitated the organization of exploitative economic institutions that appeared soon after: there were the *mitas*, or mining work; the *latifundia*, or large land estates wherein indigenous people worked on harvesting crops and raising different kinds of cattle; and the *obrajes*, which were textile workshops that mostly produced wool clothing. In Ecuador, the only important mita during the colonial period was in the southwestern city of Zaruma. Although there are still mines there, little remains from the city's early beginnings. The latifundium and the obraje, however, imposed more long-lasting effects from this period on the population (mostly in the Sierra). The large haciendas perpetuated a system of peasants attached to the land with a high dependence on the landlord. The obraje instead provided workers with opportunities to attain skills, stemming from on-the-job training and more humane treatment. One of the most renowned obrajes was located in the large town of Otavalo, about 90 kilometers north of Quito. Local caciques managed the town, rather than Spaniards, and they are still very well known for their textile handcrafts and vibrant local market.



Otavalo market. Photo by Warren Talbot (CC BY 2.0).

Indigenous people living within the haciendas were called *huasipungos*. This way of life lasted for many indigenous people until the early and, for a few, even the late 20th century. Huasipungos were usually traded with the land. They could not simply opt out and were often forced to stay through trickery, such as an eternal debt to the landlord. Those who ran were hunted down.

Social classes during this period were divided as follows: direct descendants of the Spaniard conquerors or *criollos*; the *mestizos* (mixed-race offspring of Europeans and locals); and the indigenous and Afro-descendant people brought to the region as slaves. The Spanish crown granted the most important public appointments to the *criollos*. That practice combined with the *encomienda* system meant that most people could, at best, only aspire to work for the privileged class as domestic servants or as free artisans in different labors.

It was customary for *criollos* seeking public office to lobby people close to the crown and even pay to get those jobs (Vargas Llosa 2005, 25). Although current Ecuadorian law bans bribery, the custom persists and is legal in some professional contractual contexts. There are those who continue to receive political appointments outside of honest competition.

The Spanish crown exploited the natural resources of the region, and used the slave labor from natives for their main industries. On top of that, the crown also charged these natives tribute. As for the Catholic Church, their role was mostly to accommodate the scheme and therefore further subjugate the indigenous people.

All such arrangements facilitated the process of rent extraction by the Spanish crown from this region, including Ecuador. The metals and minerals such as gold, silver, and mercury were shipped to the mother country and elsewhere in Europe. The textiles were sold throughout the new colonies, and the hacienda output mainly served to supply local markets. A system of directed trade was heavily enforced by the crown, and it instilled a bias towards protectionist businesses, favoring those in contact with Spanish royalty.

By 1700, the imperial economic network had lost most of its drive and begun to increase taxes on the colonies to keep up its fiscal largess. High taxes led to revolts, and after Napoleon's invasion of Spain in 1807, Spain's power and control of the colonies was seriously undermined. The period was ripe for independence movements to spring up throughout Hispanic America, and Ecuador was no exception—although most of these movements neither represented nor were inspired by liberalism, aside from the desire for autonomy and a free press.

Ecuador's independence came in parts, with the first in Quito in 1809. Then, after the Revolution of Guayaquil in 1820, the port city and region became known as the Free Province of Guayaquil, one of three separate entities in what is now Ecuador. This new state was unique among the colonies, and distinct from Quito, in that the leaders were oriented towards trade and liberalism, including the

governor José Joaquín de Olmedo.

Two years later, though, Ecuador in her entirety joined Gran Colombia, which included Colombia, Ecuador, and Venezuela (and what is now Panama and part of Peru).

In 1830, after about eight years of being officially part of Gran Colombia, the Ecuadorian republic was founded. Vicente Rocafuerte, president from 1834 to 1839, was a notable liberal of that era, in particular for his promotion of free trade and his belief in an educated populace, conscious of their individual rights: “The education of the people strengthens freedom and destroys slavery,” he claimed during the National Convention of 1835, in which he issued a new and freer constitution (*La Revista* 2012). Rocafuerte also made educational efforts to promote liberal republics beyond Ecuador.⁴

However, during the rest of the 19th century, the elites governed the country the only way they knew how: like the colonial empire, with an emphasis on extracting rents from the natural resources and tribute from the poorest people.

Even the abolition of slavery in 1851 was part of a political struggle to obtain power. The prominent conservative president of the century, Gabriel García Moreno, expanded the administrative and regulatory role of the state, relying on support from the Catholic Church (Ayala Mora 2008, 29–30). Having in his tenure the approval of two of Ecuador’s 20 constitutions (1861 and 1869), his approach to political office went from a conservative democracy to a theocratic, authoritarian regime.

At the turn of the 20th century, the so-called Liberal Revolution, presided over by Eloy Alfaro, did not mean a real movement towards liberalism in economic matters. Alfaro enacted a new constitution that declared freedom of religion, abolished the death penalty, and broadened women’s rights, such as the inclusion in the franchise. He accomplished large public works mainly through contracts with foreign private enterprises, yet he maintained socialist and progressive political rhetoric (Ayala Mora 2008, 31–32). Through the late 19th and early 20th centuries, the Ecuadorian dynamic swung from tradition to progressivism and back again. However, both trends followed political opportunism, entrenched intervention, and did not achieve clear acts of liberalization.

4. Gabriela Calderón de Burgos (2017b), a public intellectual in Guayaquil, goes so far as to call Rocafuerte an “ambassador for freedom.”

Citizen revolution: A child of political instability

The usual political race for power

After 1912, members of the banking sector held presidential power for the 20-year period known as the Plutocracy. Over the subsequent 40 years, the most prominent politician was five-time President José María Velasco Ibarra. His ability to engage millions of people with his speeches made him the preeminent populist figure, although he still struggled to maintain high levels of public approval. Midway through his final administration, he established a dictatorship after facing a threat to remove him from office, which had happened to him before. However, the military took power in 1972, his last year of governing, and maintained a dictatorial system for the next eight years (Ayala Mora 2008, 33–35).

An oil boom began in 1972, together with the military rule of Guillermo Rodríguez Lara. As was expected from a nationalist government, the state started its own oil company that year, the predecessor to Petroecuador, and profited from increased oil prices. It had a monopoly on access but functioned as a public-private partnership by granting concessions and sharing ownership with foreign companies. Ecuadorian GDP per capita enjoyed an inconceivable spike during the 1970s, from US\$400 to more than \$1,000 (*El Telégrafo* 2013). Most of the Ecuadorian state budget, however, went to pay foreign debts, and both the central government and the private sector continued to depend on loans from abroad.

Rodríguez Lara and the rest of the military committee agreed in 1976 to return to democracy through a transition process. After a referendum in 1978, Ecuadorians developed and voted on a new constitution, and in 1979 Jaime Roldós Aguilera won the presidential election. Roldós was a young political leader and talented orator with high popular acceptance. He died in a tragic and mysterious accident in 1981 (see Sarmiento and Rivera 2013), and Vice President Osvaldo Hurtado saw out the administration's tenure. Hurtado faced an economic crisis when oil prices fell, so he signed a letter of intent with the International Monetary Fund, assuring the payment of debts and the implementation of any required policies (Ayala Mora 2008, 38).

Meanwhile, in the early 1980s a low-intensity armed conflict began on the border with Peru, and Marxist rebel guerrillas emerged. But popular sentiment for the rebels was drawn away by a populist movement with the slogan “*pan, techo y*

trabajo” (bread, roof, and job), which neutralized any popular sentiment for the rebels and paved the way for León Febres Cordero to win the next presidential election (Ayala Mora 2008, 39).

Febres Cordero’s main campaign promise was to halt the implementation of the import-substitution model proposed by the UN Economic Commission for Latin America and the Caribbean in favor of less central planning (López-Cordero 2018/2001, 4). Once in power, Febres Cordero did not fulfill his economic agenda, on account of political pragmatism and institutional inertia. Further, his promise to end the terrorist group Alfaro Vive Carajo (AVC) became important in his political agenda, so he carried out a military campaign to capture its leaders. AVC was weakened but continued to exist until 1991, when the remnants laid down their weapons during the administration of social-democrat Rodrigo Borja (Ayala Mora 2008, 40).

Corruption scandals, illiberal public opinion, and economic crises did not provide a suitable environment for the consolidation of healthy political institutions, such as the rule of law, accountability, and the separation of powers. Politicians took advantage of and profited handsomely from a broken system. Further, the war with Peru distracted citizens from internal turmoil, and any economic deficit was deferred by printing and devaluing the national currency.

The unification and politicization of indigenous activism also gathered momentum in the 1990s. Although directed towards preserving their heritage and cultural pride, there has been a strong element of racial hostility against traditional, usually European, elites in the country, and Marxist ideology has dominated their political engagement, with class-warfare rhetoric against wealthy Ecuadorians. Ironically, many of these organizations have relied heavily on foreign aid, particularly from Western European nations such as Germany, Sweden, and Norway (López-Cordero 2018/2001, 13).

From 1996 until 2006, political instability characterized Ecuadorian governance: a new constitution, three coup d’états, and seven presidents. Lucio Gutiérrez, for example, led a coup in early 2000, amid the financial crisis, and the military transferred power to Vice President Gustavo Noboa. Gutiérrez, after being removed from the military and serving a four-month prison term, got elected in 2002 as the next president (Vargas Llosa 2005, 4).

One of the seven was Jamil Mahuad, who exercised power from 1998 until the coup in 2000. He made two healthy decisions for the long-run economy and politics, signing the definitive peace accord with Peru and withdrawing the national currency. Nevertheless, his decision to dollarize Ecuador caused his overthrow and his permanent exile in the United States, since he also ended up being blamed for the suffering of many Ecuadorian families who lost a great amount of money in the volatile transition of currencies.

Dollarization: How the Ecuadorian government got out of the money business

Economic conditions tell why dollarization took hold in Ecuador, even if the politicians did not wish or plan for it. Between the last days of December 1997 and the first week of January 2000 the nominal exchange rate between the Ecuadorian sucre and the U.S. dollar went from 4,400 sucres per dollar up to 25,000 sucres per dollar (IEEP 2000, 3). The inflation rate for consumption goods rose to almost 100 percent by the end of 2000, while real GDP fell almost 7 percent in 1999 alone, with disastrous consequences for employment. The financial sector was affected by a banking panic that led to a loss of 70 percent of its assets. The government was highly indebted with a growing and unsustainable fiscal deficit (Beckerman and Solimano 2002, 56–57).

During the second half of the 1990s, Ecuadorians responded to the ongoing crisis by choosing sound money instead of unsound money. Dollarization was bottom-up, rather than a policy imposed by some technocratic, political, or commercial elite. Everyday people simply wanted to avoid the increasing costs of devaluation and inflation. When dollarization became official in early 2000, more than 60 percent of the financial sector was already using the dollar. Workers were willing to wait long lines in the banks and on the streets to change their sucres for U.S. dollars.

Despite the run on the currency, which undermined the financial and fiscal liquidity of the economy, the government was trying to keep the sucre alive by manipulating the exchange rate. When they gave in and liberalized the exchange rate in early 1999, Gresham's Law worked backwards by driving out the bad and letting Ecuadorians keep the good. Given the swift transition to a more reliable and internationally recognized currency, Ecuadorians were able to come out of the recession sooner than otherwise. As early as 2001, the outlook for the Ecuadorian economy had become much more promising.

An important result of dollarization was economic confidence and, in a sense, economic equality. Before dollarization, fixed-wage workers received sucres that were losing their purchasing power by the day. Meanwhile, Ecuadorians with access to local and international capital markets—a minority—were able to transform their assets into U.S. dollars and protect themselves. As they maintained an important part of their assets in foreign currency, they could enjoy earnings merely as a result of devaluation. Local prices of Ecuadorian goods had been depreciating in dollar terms each day. Then, after dollarization, both social groups earned their incomes in the same currency, without any privilege over the other. Hence, dollarization made monetary transactions more impartial, no matter who engaged in those transactions.

Since 2003, Ecuador has enjoyed the longest period in her modern history of single-digit rates of inflation. This is no trivial outcome, and she has achieved this without a central bank with a monopoly on the issuance of currency. Entrepreneurs and just about every Ecuadorian have been able to focus more on real production and competition. Price-level uncertainty has been largely eliminated, and the risk of devaluation does not affect domestic or international transactions.

As dollarization was emerging from the bottom up, particularly 1998 onward, there were public and scholarly discussions regarding its viability and desirability. Two notable people who advocated in favor of dollarization were Dora de Ampuero, the director of the Ecuadorian Institute of Political Economy (IEEP for its acronym in Spanish), and Joyce de Ginatta, a successful entrepreneur. Both Ampuero and Ginatta are from Guayaquil, the commercial hub of the country. Ampuero is also a former student of the late Donald Lavoie and James Buchanan, who were her teachers at George Mason University. In addition, Franklin López Buenaño, an Ecuadorian who lived in the United States and worked as a professor of economics at the University of New Orleans, also proposed dollarization as a remedy to Ecuador's monetary maladies. At that time he was also teaching at ESPOL, the polytechnic college in Guayaquil, and he introduced Austrian economics and public choice to Ecuador (López-Cordero 2018/2001, 5).

Ampuero, Ginatta, and Buenaño engaged in conversation and debate via conferences at different Ecuadorian universities, radio and TV interviews, and op-eds in local newspapers. Moreover, they worked together with a larger group of economists from both cities, Quito and Guayaquil, that helped to persuade government officials, including the sitting president, that dollarization was the way out of the mess. There were also international economists and organizations who supported the people behind the initiative: Kurt Schuler, a former classmate of Ampuero at George Mason University; Steve Hanke of Johns Hopkins University; Juan Moreno from Panamá; and the Atlas Economic Research Foundation (located in the United States), particularly the CEO at that time, Alejandro Chafuen.

All of this was influential in shaping public opinion in favor of the atypical policy of dollarization, even against the advice of the International Monetary Fund and Goldman Sachs, not to mention the disposition against dollarization in general among many renowned economists such as Joseph Stiglitz (2001, 6–9), Jeffrey Sachs, and Felipe Larrain (Sachs and Larrain 1999). At the time, Paul Krugman (2000) said that Ecuador's dollarization experiment was more likely to fail than to work, and Ecuador's own central bank warned that it was simply not viable (Hanke 2003, 135).

In the last 10 years, dollarization has showed resilience in the face of the populist government, the Citizen Revolution of Rafael "Mashi" Correa. During his presidency, a new constitution was approved and a new set of laws and bureaucratic

organizations were established with a populist-statist vein. Dollarization remained largely intact, while there was an ineffective state attempt at an alternative digital currency—an attempt that included a ban on private cryptocurrencies.

Correa’s rule, spanning 2007 to 2017, coincided mostly with the oil boom in the region brought about by the international market. Yet the new administration elected this year—that of Lenín Moreno, from Correa’s own party, the PAÍS Alliance (AP)—has revealed the enormous fiscal deficit and public debt that were caused by Correa’s unsustainable increases in public expenditure on white-elephant projects. Correa is a U.S.-trained economist, having earned a Ph.D. in economics from the University of Illinois at Urbana-Champaign, where he studied under the late Werner Baer. For his dissertation, Correa included a chapter that criticized dollarization and recommended the adoption of a currency union exclusively for South American countries. He has always been hesitant regarding the efficiency or adequacy of dollarization for an economy such as Ecuador. In spite of all that, and the drastic changes he implemented, he still could not force Ecuadorians out of dollarization.

The Citizen Revolution

In the years preceding Rafael Correa’s reign in Ecuador, the absence of rule of law and of separation of powers badly damaged the public’s confidence in their government, which was primarily driven by moderate to conservative policies. Corruption plagued administration after administration, and the government’s ability to collect taxes was diminished. In 2006, the poverty rate was close to 40 percent (Jácome and Serrano 2016, 3), and the Gini index of 53 was relatively high.⁵ The panorama was fertile ground for a new trend of ideas that was already spreading through the region under the banner of “21st Century Socialism” (Weyland 2013, 19).

Professor and former Minister of the Economy Rafael Correa was the man who implemented those ideas in Ecuador. He ran for president in 2006, promising a fairer and more egalitarian country. His progressive rhetoric, along with his image as an outsider and leftist populist leader, propelled his political party, the AP, to an electoral victory. Although Correa’s “Citizen Revolution” gained control of the presidency by a slim margin in 2006 and its popularity has fluctuated throughout the years, it continues to influence institutions in Ecuador through the government of Lenín Moreno.

The playbook of 21st-century socialism, already implemented by Hugo Chávez in Venezuela, was key for the success of the AP’s political strategy. Accor-

5. Gini index data from the World Bank ([link](#)).

ding to Kurt Weyland, the script begins with convening a constituent assembly to expand executive power and weaken checks and balances (2013, 20–22). That is precisely what Correa did by promoting a new constitution to consolidate his model of governance. While Ecuadorians had been accustomed to changing their entire constitution with each shifting paradigm, this instance carried with it a new attraction: the prospect of establishing a long-lasting, comprehensive, and civil-rights-based document.

The resulting Constitution of 2008 set forth a decentralized political system which invoked the slogan *sumak kawsay*, or “good living.” It divided the state’s power into five categories: the traditional executive, legislative, and judicial branches, and the new electoral and participatory branches. The new constitution created an extensive governmental structure and broadened the state’s responsibility to protect and guarantee rights, thereby establishing more regulation and bureaucracy.⁶

Populism, which is generally understood as the strategy to win and exercise state power by creating tension between the common people and an opposition, was another important element in this socialist script. Carlos de la Torre (2013, 34) describes Correa’s style of governance as technocratic populism, because Correa “combine[d] populist rhetoric with top-down technocratic policies.” Correa enjoyed an economic bonanza after oil prices rose and a more effective tax-collection system was installed; he used central planning to promote certain social policies and wealth redistribution without negatively impacting Ecuadorian elites directly.

The media, the traditional political parties, and certain social movements were often quarters of opposition. Correa selected his opponents wisely, since public confidence in those who usually maintained balance in a liberal democracy had decreased dramatically during the first few years of his rule. Therefore the AP was able to legitimize its hegemony without significant pressure from media or popular confrontation.

6. The new constitution is a good example of what Frédéric Bastiat called “the seductive lure of socialism.” While it attempts to “extend welfare, education, and morality throughout the nation,” the constitution, in effect, undermines individual liberty (Bastiat 2007, 18).

Correa positioned the “U.S. empire” as a key enemy of Ecuador and shifted the country’s foreign-policy focus towards Third World nations—formalized with membership in the Bolivarian Alliance ([link](#)) with the socialist regimes of Cuba, Venezuela, Nicaragua, and Bolivia, among others. He sought to foster their cooperation and autonomy, with the belief that U.S. aid had been a facade for counter-productive meddling and that peer nations offered a more fruitful avenue



Socialist Latin American leaders meeting in 2009. Photo by Fabio Rodrigues Pozzebom/ABr (Agência Brasil) (CC BY 3.0 BR).

for development. In 2008, Correa announced that Ecuador would not pay the interest payments on her foreign debt. That same year he also demanded that U.S. officials vacate the Eloy Alfaro Air Base in the port city of Manta.

The government of the Citizen Revolution proceeded with related protectionist policies, such as the development of the industrial and agricultural sectors through a new production matrix for import-substitution. China became a strategic ally for the government in the financial, commercial, and political fields. Correa also spent considerable effort in the development of an unfruitful regional alliance, the Union of South American Nations (UNASUR), with an extravagant headquarters in Quito. The government imposed customs tariffs and implementing safeguard fees for balance-of-payment purposes. To encourage national production, the Correa administration banned importation of a long list of products. Ecuador proceeded to experience a decade of commercial isolation, with her heavily regulated economy chasing foreign investors and transnational companies from the country.

Domestic businesses also struggled under internal economic barriers, such as required advance payment of the income tax and unnecessary red tape that hindered production. Many businesses, including homegrown firms, decided to move operations out of Ecuador. For example, the clothing chain Pinto and the pharmaceutical firm Birm relocated to Peru and Colombia, respectively.

To boost the control and influence of state-run enterprises, the government also updated legislation regarding hydrocarbons and the mining sector. The reforms negatively affected private companies, which had to renegotiate or finish existing contracts before losing their share of extraction to state firms (World Trade Organization 2012, x–xi). This combined with the rise in oil prices supported the government’s welfare promises, and the Correa administration updated its budgets each year with more ambitious oil-price projections and social policies.

Regardless of whether or not the oil-price-based budget or the production matrix were sustainable over time, impressive short-term outcomes boosted the government's popular approval and led to more protectionism and the continued expansion of the welfare state.

The economic crisis that Ecuador has faced since the second half of 2014, however, demonstrates the vulnerability of such policies. In order to maintain its size, the enormous Ecuadorian state not only wasted all of its own revenue; it also took on enormous debt. The foreign debt has grown from \$14 billion in 2006 (AFP 2006) to \$40 billion in 2017 (Angulo 2017), and the equivalent of more than one-and-one-half years of oil extraction is already sold to China. While non-oil products surpassed oil exports in 2015 (Araujo 2016), the Ecuadorian economy has still become more dependent on the government.

International-trade competitiveness put pressure on the Ecuadorian government to open up its borders, which is why it requested that the European Union restart negotiations for a trade agreement. In 2016, the parties signed on to the agreement that was already in place with Colombia and Peru (European Commission 2017). After recognizing the benefits of this agreement, such as a 20 percent increase in exports to the European Union, Ecuador sought to sign an agreement with China as well (*El Comercio* 2017b).

Nevertheless, legal uncertainty and weak rule of law continue to discourage foreign investment and entrepreneurship in Ecuador and have seemingly damned the country to the bottom of most respected global indexes.

Rankings tell the tale: Forgone development, rule of law

Economic freedom

The current downturn affecting Ecuador demonstrates the weak performance of the economic system. The vast extent of government intervention and the always-changing regulations are the most acute shortcomings. The Heritage Foundation (2017) ranked Ecuador 160th out of 180 countries in the *2017 Index of Economic Freedom*, and the Fraser Institute rated Ecuador 130th out of 159 countries in the *Economic Freedom of the World: 2017 Annual Report* (Gwartney, Lawson, and Hall 2017). A frequent reference for foreign investors, the World Bank's Doing Business index, ranks Ecuador in 168th place out of 190 countries when it comes to starting a business (World Bank Group 2018, 4). The government of the United

Kingdom warns of the risks involved with investing in Ecuador, since it can take six to 12 months simply to set up a business; it suggests that investors who are interested in doing business in Ecuador first build solid relationships with potential local partners (Department for International Trade 2014). The Heritage Foundation (2017) says, “Government spending has amounted to 42.4 percent of total output (GDP) over the past three years, and budget deficits have averaged 5.1 percent of GDP. Public debt is equivalent to 34.5 percent of GDP.” Those numbers should be considered in the context of a default as recent as 2008.

As for tax policy, Ecuadorians pay 31 different taxes, and the tax burden in 2016 has been estimated at more than 21 percent of GDP (*La Hora* 2016). The income tax is progressive, and the top rates are 35 percent for individuals and 22 percent for corporations. The value-added tax is set at 12 percent, and services 10 percent. Luxury goods have an extra fee, and the government charges 5 percent when people move \$5,000 out of the country with any transaction (Department for International Trade 2014). Tax collection increased by more than 160 percent in 10 years, but more than half of the collected money covered administrative expenditures rather than infrastructure or social spending (Alarcón 2016).

In terms of foreign trade, the U.S. Department of Commerce’s International Trade Administration exposes how tariff, non-tariff barriers, and state-owned enterprises interfere with trade. Interventionist policies in the banking and primary sectors are, in particular, the main shortcomings. The financial sector is poorly developed due to excessive state interference, and exporting to Ecuador requires adhering to a plethora of technical and customary regulations (Export.gov 2016).

Rule of law

The World Justice Project (2016) ranks Ecuador 91st of 113 countries in its *Rule of Law Index 2016*, making her one of the worst for political and judicial institutions. The prevailing corruption scandals in Ecuador, ranked 120 out of 176 countries in the Transparency International’s Corruption Perceptions Index 2016, have unveiled the inefficient and unscrupulous judicial system that failed to prosecute several cases and whose former attorney general is now a suspect (*El Comercio* 2015; 2017a). President Lenín Moreno called for a referendum to reevaluate the selection process of judges, yet the problem goes beyond personnel; it consists in the constitution of the state.

The latest election proves this assessment. The AP, the ruling party, breached the law on many occasions and enjoyed impunity, with multiple concerns raised regarding electoral fraud.⁷ Lenín Moreno’s opponent was the banker and business-

7. See the presentations made at the Interamerican Institute for Democracy/Diario Las Américas forum

man Guillermo Lasso, who defended liberal principles to a greater extent. However, he struggled against a wave of clientelism and foul play. Incumbent officials, for example, in view of the severe 2016 earthquake, centered on the northern coast as an opportunity to buy votes with public works. Further, they unapologetically used their media presence to make political campaigns, discredit opponents, and promote the government's actions over the last decade.

The electoral court purported to modernize the electoral process with the installation of a new mechanism for vote counting, including digitalization of the official documents and computer automation. The president of the electoral court, Juan Pablo Pozo, touted this updated system as the ultimate mechanism for a fair electoral process. However, that flew in the face of the lack of an audit or transparency, suggesting the contrary (Calderón de Burgos 2017a). In the presidential runoff, the electoral court withdrew the contract with the firm that was supposed to audit the initial count. Observers documented many instances that warranted investigation, and the processes of verification lacked transparency and clarity, yet the electoral court simply concluded that Lenín Moreno won with a slight advantage.

Civil liberties

Rated as “partly free” by Freedom House, Ecuador has caught the attention of watchdogs such as Human Rights Watch (Human Rights Watch 2015; 2016), as the central government has trampled the civil liberties of its citizens. Freedom of expression and association have been particularly threatened by the Citizen Revolution, and Human Rights Watch says the Moreno administration “should address long-standing human rights problems.” Some of the events that concerned Freedom House (2017) were the dissolution of the National Union of Teachers, which was the largest association of teachers, and the status of academic freedom. After a political dispute with the authorities of a graduate university that was established in the country under international agreements, Correa demanded the National Assembly reform the Law on Higher Education to cut the public funding for the two independent graduate universities (*El Comercio* 2016). The reduction of funds, approved in December 2016, would undermine the viability of the two institutions (Freedom House 2017).

Another concern for Freedom House (2017) was harassment towards citizens on social media: “The local press watchdog Fundamedios reported that in 2016, officials continued monitoring speech on the social-media platform Twitter and filing complaints against accounts that are critical of the Correa administra-

“Fraude Electoral en Ecuador,” April 13, 2017, in Miami ([link](#)).

tion.” TV and radio programs, as well as printed media, have to meet the requirements of the Communications Act in order to have a license for their transmission.

In mid-2015 the government attempted to implement new taxes, and Ecuadorians went to the streets in protest. These strikes uncovered the authoritarian nature of the Correa administration: The police were unnecessarily combative with the citizens; the authorities jeopardized freedom of expression and restricted information; and public employees were obliged to protest in favor of the government.

Although many journalists and freedom-of-speech advocates perceive a freer and calmer environment in the Moreno administration, nothing has changed legislatively. The president has not rejected the latest constitutional amendment that declares communication as a public service, which implies that the field needs more government interference.

One recent example of denounced irregularities comes from the latest selection process for radio frequencies. Those conducting the process requested up to \$200,000 in exchange for a frequency, as supposed campaign donations, and yet these individuals remain in their posts with impunity (*El Universo* 2016). Although the law permits external oversight during public procedures, the concerned entity did not allow Fundamedios, for instance, to monitor the selection process.

Time for a liberal turn?

The weak capacity of Ecuadorian institutions to protect fundamental rights, with checks and balances and rule of law, is a consequence of high reliance on populist leaders rather than on stable programs or a consistent philosophy of government (U.S. Department of State 2010). As stated above, historically, the preferences of the elites and the heads of state have defined the political and economic courses of the country. To have had 20 constitutions and myriad legal reforms is to follow the pattern of Latin America, which has “the world’s most tortuous constitutional history” (Azul 2017, 209) owing to predilections for “wiki-constitutionalism” (Lansberg-Rodriguez 2010). But all the reforms have failed to establish effective normative frameworks for the public administration and the penal system.

The Citizen Revolution project, rather than addressing these shortcomings, became a successful political strategy to legitimize the hegemony of the AP political party. The current economic crisis and political instability demonstrate how many of the Citizen Revolution public projects were unsustainable, paid for by buoyant oil prices and nationalized oil extraction. Since 2015, under the gun of fiscal pressure, the government has had to reduce the size of its staff as well as its number of public contracts and works. This unraveling has also revealed an obscure side of

the Citizen Revolution and its populist facade: Conflicts among members of the AP and government officials have uncovered a systemic corruption network (Bureau of Democracy, Human Rights, and Labor 2016).

After six months of ruling, Lenín Moreno is gaining acceptance, from a perception that he has a peaceful and non-confrontational governing style. But the economic environment remains the same: attenuating the private sector while broadening the role of the state. Moreno continues to disdain free-market policies, such as reducing the tax burden or liberalizing restrictions on private initiative, with the belief that such measures would represent a backward step in the march for social rights.

While liberal ideas have been largely absent from Ecuadorian politics, the prevailing state-centric policies over the last 10 years have aggrieved the natural performance of the economy. Dollarization, as a protection of property rights, has been the lone economic decision and institution with notable positive results in the 21st century.

Liberal thought

Academics

Keynesian economics and state-centric thought dominate post-secondary economics education. Thirty universities are public, including the previously mentioned ESPOL, and of the 18 private universities only two of them, to our knowledge, the University of the Holy Spirit (UEES) and San Francisco University of Quito (USFQ), provide free-market perspectives in economics, and only USFQ offers a flexible, open curriculum that emphasizes liberal-arts education. These two universities organized an event in January 2016 called Ecuadorian Economic Perspectives (CADE 2016), where professors met in Quito and Guayaquil to talk about the economic situation of the country.

The leadership and many professors of USFQ have overtly demonstrated their preference for liberalism, and in 2013 they hosted the first Mont Pelerin Society (MPS) meeting in Ecuador at their satellite campus in the Galapagos Islands. However, the university tends to have a negative public image as biased.

At the beginning of the Correa administration, in 2007, the government imposed regulatory pressure and restrictions on the university for having evident links with liberal free-market advocates and organizations. The crackdown included bans on specific classes, such as introduction to liberalism. Due to this, USFQ liberals have been more discreet in participating in liberal initiatives, even

if they have hosted important events such as the Economic Forum of late 2015. That event led to the publication of an economic manifesto to reduce government intervention and eliminate the public deficit in an orderly manner, and its signatories included 20 young economists from the best universities of the country, along with some in international posts. By such activities of those who espouse liberalism put a target on their backs and expose them to abuse by the government and its socialist allies.

USFQ Economics Professors Juan F. Carpio, Luis Espinosa Goded, Santiago José Gangotena, and Pablo Lucio-Paredes treat free-market and liberal principles in their courses, as Professors Jorje Zalles and Jorge Gómez Tejada do with their humanities courses. More generally, USFQ aims to raise the awareness of its students about their liberties as means to achieve success in the marketplace and personal life.

Media

Liberal ideas get very limited media coverage, since few programs analyze economic and political events from a liberal perspective. The most important program and exception is *Contrapunto Liberal* ([link](#)), hosted by Dora de Ampuero, Joselo Andrade, Xavier Andrade, and Rodrigo Calderón—members of IEEP. A radio station in Guayaquil transmits the program once a week in the morning, and many young leaders of Students for Liberty have recognized the influence of the program in their current way of thinking.

In Quito, USFQ also has a radio program on financial education. The host is Professor Sebastian Oleas, who maintains a pragmatic or moderate posture on public issues. There are programs that refer to some free-market or individualist principles, but they are not liberal-oriented programs per se. That is also the case of *Clarito Está*, a radio program hosted by two economics professors, Oleas from USFQ and Vicente Albornoz from the University of the Americas (UDLA). They analyze the economic situation from an academic perspective.

The television journalist and interviewer Janeth Hinojosa holds a civil-libertarian perspective and firmly questions the quality of work the government does. Cartoonist and media personality Xavier Bonilla, commonly known as Bonil, is a relevant critic of government power who provides constructive ideas through humor and cartoons. His work has been internationally recognized, and his personal confrontation with Correa has positioned him as an important reference for the defense of freedom of expression.

Even these relatively rogue personalities, however, maintain a centrist or progressive posture, partly perhaps from defensive regard for regulatory hazards to their operation and partly from a simple regard for the preferences of the audience.

Newspapers lived a nightmare during Correa’s reign, including 2,308 documented attacks on free speech, such as a \$3,500 fine on *La Hora* newspaper in 2015 for *not* covering an event (Fundamedios 2017; PanAm Post Staff 2015). However, when many local periodicals go to print, there is still a space for alternative ideas in the op-ed section.

Gabriela Calderón de Burgos, a research fellow of the Cato Institute, is a columnist with *El Universo*. This newspaper from Guayaquil has the longest history of liberal sentiment in Ecuador, including the recruitment of a Peruvian defector from communism, columnist Eudocio Ravines, in the late 1970s (López-Cordero 2018/2001, 3). Calderón has, in recent years, developed an impactful career in the sphere of the ideas of liberty, with op-eds on policy issues and a book called *Entre el Instinto y la Razón* (“*Between Instinct and Reason*,” Calderón de Burgos 2015).

The president of the Chamber of Commerce of Guayaquil, Pablo Arosemena Marriott, also writes for *El Universo*. He had declared himself to be a liberal advocate, and the World Economic Forum Young Global Leaders gave him an award as the Global Leader of 2016 (Idepro 2017). There appears to be a movement of young leaders who are finding success in their personal and professional lives and trying to advance ideas of liberty, from time to time getting a place in popular media.

Research institutes

Prior to liberal think tanks in Ecuador, industry associations led educational and lobbying efforts for free enterprise. In particular, Rómulo López Sabando was an entrepreneur with a focus on tuna exports, and he became a member of the MPS and a liberal advocate at the helm of the Tuna Exporters Association and the Chamber of Industries in Guayaquil. He organized the translation of *Free to Choose*, the U.S. public television series featuring Milton Friedman, into Spanish, and the two trade associations held workshops and sponsored prominent international speakers such as Manuel Ayau, founder of Francisco Marroquín University (UFM), Latin America’s most brazenly liberal university.

López Sabando got heavily involved in the Febres Cordero campaign for



Bonil was sued in February 2015, for criticizing the government, by the public communications agency. Photo by Agencia de Noticias ANDES (CC BY-SA 2.0).

president in 1984, which was successful. However, he became dejected by corruption and a lack of policy reforms, and he accepted a diplomatic post in Hong Kong (López-Cordero 2018/2001, 4). Regardless, he got the ball rolling as far as liberal education and paved the way for the organizations to come. López Sabando influenced another lawyer and politician from Ambato in the Ecuadorian highlands, Luis Fernando Torres, who is currently a member of the National Assembly. Torres has been part of the opposition during AP's apogee, emphasizing the repetitive violations of the rule of law and the concomitant increase in populist politics and subversion of the individual in the country.

Among policy-research institutes, IEEP ([link](#)), founded in 1991, has been the most important source and catalyst for the ideas of freedom, and it was the lone think tank in Ecuador for more than two decades. Its founder and leader, Dora de Ampuero, lived abroad for 15 years, including for her graduate studies at George Mason University, as well as an internship with the Atlas Network, before founding her own research center. As mentioned above, she and IEEP had a key role during dollarization.

While additional small liberal-research operations began in the late 1980s and 1990s, such as the Friedrich von Hayek Center for Studies of Ecuador and the Guayaquil Liberty Foundation, none garnered traction or remain to this day. In communication with the authors, Ampuero has shared that competing researchers struggled to garner funding and maintain or even achieve legal status as nonprofit organizations.

The Ecuador Libre Foundation ([link](#)) began in 2015 as a private nonprofit that conducts research and analysis aimed at promulgation of liberty-based public policies. The organization is led by the two-time presidential candidate Guillermo Lasso, and other directors and members of the staff supported him during his campaigns. The organization had a key role in developing the governance plan that Lasso presented for the last election. But Lasso faced a tall order on the campaign trail, since the Ecuadorian population heavily identify themselves as leftists, by essentially two-to-one over the right in a 2015 Latinobarómetro survey,⁸ in line with their suspicions of free



In 2016, the Ecuadorian liberal community paid tribute to Dora de Ampuero for devoting her life to communicating the ideas of liberty. Photo by IEEP.

8. The data can be found by navigating the Latinobarómetro online analysis page ([link](#)), for Ecuador

markets. Just 8 percent of Ecuadorians have confidence in private corporations, versus 20 percent who have no confidence at all (*ibid.*). Cuban exile Armando De La Torre, now dean of social sciences at UFM, says Ecuador has one of the most intellectually socialist traditions of any nation he has visited (López-Cordero 2018/2001, 15).

In 2016, young organizers gave birth to three new initiatives: Choose Freedom, Instituto Olmedo, and Libre Razón (LIRA). The process for obtaining legal status, however, takes considerable time. The cofounders of LIRA ([link](#)), for instance, began the paperwork in mid-2016 and expect to finish in the first months of 2018. LIRA is the first liberal think tank in Quito, and it develops research on current economic and political developments in the country with the aim of spreading the ideas of liberalism and introducing liberty to the sphere of public opinion. Choose Freedom ([link](#)) develops networks and relationships with several institutes advocating liberty throughout the world, and it provides scholarships to young Ecuadorians to attend educational programs. Instituto Olmedo ([link](#)) promotes the history of the city of Guayaquil by recounting how liberal principles shaped its evolution, trade prowess, and urbanization.

Advocacy organizations

There are only a few active liberal advocacy organizations in Ecuador. The oldest one is the Libertarian Movement (ML), and it is also the one with the strongest national presence. During Correa's presidential tenure, the ML earned an important place of influence in public opinion, yet still its activities reach only a minority of people.

Under Correa many disillusioned students turned their attention towards the ideas of liberty. For that reason, the Ecuadorian chapter of Students for Liberty has had a great reception and strong support from young people, who encourage the activities from new members as graduates and entrepreneurs.

In November 2017 the liberal institutes and organizations joined their efforts to celebrate the fall of the Berlin Wall with a "freedom week," which included many events in various cities throughout the country. In the face of intimidation, associates of the current initiatives are raising their voices for the ideas of liberty and trying to overcome the straw-man image that populist and socialist leaders have attached to liberalism.

These organizations face two cultural challenges: first that individualism and the principles of liberty are wanting in the way of thinking of Ecuadorians, and

for the year 2015, to "La Democracia," then "Política," "Escala Izquierda-Derecha," and finally to the question "Escala de ubicación ideológica de partidos políticos."

second that neither enterprises nor individuals have the habit of contributing to ideas-promoting organizations that are not directly involved in politicking. Consequently, the organizations not only have to introduce the liberal approach to public policy and legislation but also to educate Ecuadorians and address the underlying culture.

Concluding remarks

Despite what seems like a very negative overview, as the international rankings attest, there are some reasons for optimism. Dollarization demonstrates the entrepreneurial leanings of the Ecuadorian populace and their willingness to respond to incentives in favor of economic development. The rise of communications technology is shining a light on corruption and criminality in both the socialist regime and the elections process, and new educational campaigns nearly brought the most liberal candidate to office in the 2017 presidential election. Further, the fiscal austerity imposed by falling petroleum prices has caused fragmentation in the statist establishment and a widespread realization that the Citizen Revolution largess is unsustainable, as is happening in the other countries of the weakening Bolivarian Alliance. Despite the hostile environment for liberal ideas in the media and in universities, advocacy and research organizations are still rising, punching above their weight and threatening the government-backed anti-liberal narrative. Persecution by state media and law enforcement is a badge of honor and has served to exemplify the authoritarian nature of the socialist regime.

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