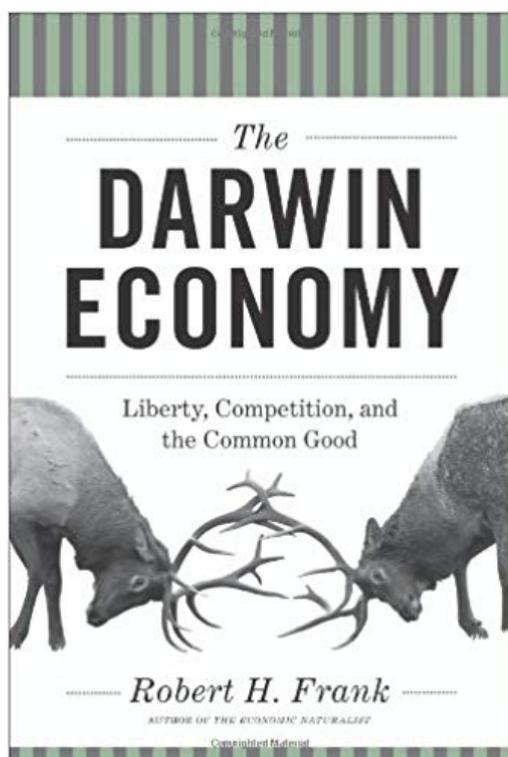


The Darwin Economy: Liberty, Competition, and the Common Good *by* Robert H. Frank



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Who was the greater economist--Adam Smith or Charles Darwin? The question seems absurd. Darwin, after all, was a naturalist, not an economist. But Robert Frank, *New York Times* economics columnist and best-selling author of *The Economic Naturalist*, predicts that within the next century Darwin will unseat Smith as the intellectual founder of economics. The reason, Frank argues, is that Darwin's understanding of competition describes economic reality far more accurately than Smith's. And the consequences of this fact are profound. Indeed, the failure to recognize that we live in Darwin's world rather than Smith's is putting us all at risk by preventing us from seeing that competition alone will not solve our problems.

Smith's theory of the invisible hand, which says that competition channels self-interest for the common good, is probably the most widely cited argument today in favor of unbridled competition--and against regulation, taxation, and even government itself. But what if Smith's idea was almost an exception to the general rule of competition? That's what Frank argues, resting his case on Darwin's insight that individual and group interests often diverge sharply. Far from creating a perfect world, economic competition often leads to "arms races," encouraging behaviors that not only cause enormous harm to the group but also provide no lasting advantages for individuals, since any gains tend to be relative and mutually offsetting.

The good news is that we have the ability to tame the Darwin economy. The best solution is not to prohibit harmful behaviors but to tax them. By doing so, we could make the economic pie larger, eliminate government debt, and provide better public services, all without requiring painful

sacrifices from anyone. That's a bold claim, Frank concedes, but it follows directly from logic and evidence that most people already accept.



Reviews of the **The Darwin Economy: Liberty, Competition, and the Common Good** by Robert H. Frank

WinDImmortal

The basic principle of Frank's work--the dichotomy between the Adam Smith approach to the economy and the Darwinian approach to the economy--is sound. The idea of progressive taxation to cover increasing societal costs in the future has strong persuasive appeal as social costs increase rapidly. Near the end of the work, Frank starts down a slippery slope when he starts to advocate social controls on potentially harmful commercial products that an individual may or may not choose for himself. All in all, however, I found the book fascinating reading and found the Darwinian principle illuminated in a way that I hadn't thought of before.

Angana

Robert Frank's book has some delightful insights, yet his thought experiments and simple numerical tradeoffs come across as a bit academic. The book is addressed to the mythical "rational libertarian", to persuade him or her by logical reasoning that taxes are not only necessary but can actually be good for both the economy and society. The Darwin part is a bit of a stretch, as it refers not to Darwin's primary thesis of evolution by natural selection, but to a secondary observation that individual survival of the fittest is not always best for the group.

This failure of individual selection happens when individuals compete, not to achieve an absolute standard of success, but success relative to others. Such a competition, as in an arms race, knows no bounds unless some force, such as an agreement or regulation intervenes to dampen the competition, to prevent a dangerous or wasteful use of resources. Since mainstream economics is based on the thesis that encouraging individual self interest ends up maximizing group welfare, Frank is mounting a direct challenge to economic orthodoxy.

So he develops several simple examples to illustrate how the overall welfare of two parties can be improved when each subjugates his or her immediate self-interest to process that involves rewards, or taxes, or cash transfers. A well known example is when an airline offers increasing compensation to passengers to wait for another flight when their flight is overbooked: a poorer passenger is well compensated for waiting and so does not resent richer passengers for getting the contested seats. In the same way the poorer members of society may be compensated by the provision of governments serviced financed by taxes on the richer members. Moreover Frank shows that this instinct for justice is well-founded: unequal societies simply do not function as well, either economically or socially, and the extravagant wealth of some in a winner-take-all society comes more from luck than superior talent or harder work.

A classical example of how taxes may outperform rigid regulation is Prohibition - better to tax and control liquor sales than totally outlaw them. In fact Frank has a strong preference for sin taxes of all sorts, as better than heavy handed ways to reduce harm, which puts him squarely in the camp of the rational libertarian. For Frank this includes not just hard liquor but also green house gas emissions. He would also institute a progressive tax on consumption (= income minus savings), noting that excessive luxury is harmful to society, as it diverts resources away from the many and toward the few. Better of course to define consumption as income minus charitable donations and investment, broadly conceived, and to add on a substantial estate tax. Yet this scheme is still troubling because vast fortunes could still be accumulated and these fortunes would likely be invested in activities that yield short term profits more than in activities that develop the long term welfare of society. This is another Darwinian example where individual self interest may not promote the overall welfare of the group, especially of future generations, who in today's world are already facing limits-to-growth and possible ecological overshoot and collapse.

Frank also misses the boat by citing with approval Adam Smith's mistaken claim that modern wealth is due to division of labor. Actually division of labor is natural to humanity, practiced even by the most primitive tribes, such as gender roles, and more so in all large-scale endeavors. What are more fundamental are the combinations of resources, especially energy, available to a society, the resilience of the ecosystems, and the technology and social structures that have been developed to exploit those resources in that environment. Without cheap fossil fuel energy there would have been no industrial revolution. Factory-like division of labor is just a social structure that works efficiently with the kind of reliable and high capacity supply and distribution networks that fossil fuels can support.

Another point: Most progressives would be as startled as I was by Frank's claim (p. 11) that "Critics on the left attribute market failure to insufficient competition". Actually today's progressives correctly point to inadequate regulation as a key cause of market failure, not competition. It was the deregulation of the financial industry that led directly and predictably to the financial meltdown of 2008. Without good regulation monopolists or swindlers soon take over, so regulation comes first. And a progressive would agree whole heartedly that a wasteful arms races or social competition should be constrained by good regulation, whether it be an international arms control agreement or higher taxes on expensive homes or other luxuries.

Overall an insightful book, yet with some gaps due to a lack of a comprehensive understanding of some key fundamentals. And most libertarians, who themselves lack such an understanding, will not be able to evaluate how well academic arguments apply to a very complicated world. Some on the left and in the middle may learn more from this book.

roternow

Economic history & current events. Thoughtful & compelling in both current taxation policies (or lack of policies) and simple elegant to getting ALL of us to a better, desirable future.

Highly Recommend.

Doomblade

Very interesting book combining a perspective that differs from modern neoclassical economics with one of the most important neoclassical results, the Coase Theorem. Provides an intellectual roadmap for a new approach to public policy. Unfortunately, one that will likely take a long time to come to fruition in the current political environment, if it can even every happen. Accessible and a fairly fast read. Recommended highly to people with an interest in the economics of public policy.

Grinin

His thesis is that Adam Smith, the generally uncontested thinker of modern economics, will be replaced by Darwin. This is due to the fact that Darwin understood the complications of individual versus group better than Smith. On this score, Frank is absolutely right. For all Smith's insights, he

misunderstood individual versus group competition. Whether this will lead to Darwin replacing Smith in future economic value remains to be seen. But Frank's explanations shows that "taxing the rich more" is as poor a method for prosperity as the libertarian cry "It's my money."

Frank leads you through two hundred pages of very easy to understand examples in twelve chapters. That's about 30 to 45 minutes of reading a day - roughly 20 pages or so per chapter. In the final chapter he poses a thought experiment I often have entertained - "If all options were open, what kind of society would you choose to join?" Eye-opening answers based on economics.

What I most appreciated about his approach is the use of clear economic thinking unmotivated by political bias as the method for determining policy. Something far left and far right would benefit from, but unlikely either will persue.

breakingthesystem

Robert Frank has a laudable view on World real problems. This book is a complement of his previous books (Luxury Fever), which is also a must-read. His proposal of progressively taxing consumption is probably the only real solution to the increasing depletion of natural resources and global warming.

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