

effective. They write, “Businesses that increased lobbying expenditures by 1 percent reduced their effective tax rates by 0.5 to 1.6 percentage points the following year.” Diffuse costs, concentrated benefits—if only we could all be so well-connected.

This lobbying extravaganza is often led by the plethora of lawyers in Washington, D.C. The authors somewhat gleefully remind the reader that there is a strong negative international correlation between the number of law students and economic growth. Conversely, nations with a high concentration of engineering students tend to have robust economic growth. Regardless, we can all agree that focusing the nation’s attention on producing tax carve-outs, rather than actual production, will do no favors for economic growth.

Who doesn’t take tax breaks / Part of the problem with a government of our size is that it intrudes into virtually every area of life: subsidizing the purchase of a home (\$69 billion) and health care (\$185 billion), to name just two. Through the years, everyone has become dependent on, or taken advantage of, favorable tax treatment created by the code.

The mortgage interest deduction (MID) is singled-out for special treatment, and rightfully so. If you live near a coast or in a major city, it is likely one of your largest tax breaks; if you don’t, you’re subsidizing large home purchases elsewhere. As the authors note, less than one in 10 Americans earning less than \$50,000 can claim the MID. High-income earners net a tax benefit that is nine times larger than tax filers earning between \$50,000 and \$100,000. Middle-income Americans can thank the real estate industry for this inequity.

And yet, this deduction does little to advance its intended function of promoting home ownership, which is a dubious goal of government in its own right. Instead, the MID encourages more debt and borrowing. Despite the deduction, the United States is nowhere near the top for home ownership rates. That title belongs to Singapore at 87 percent, yet Singapore

has no MID. The United States clocks in at 65 percent, slightly lower than the United Kingdom, which also doesn’t have a MID.

Reform / There are a million different proposals for reforming the federal tax code, but Fichtner and Feldman spend just a few words on broad reform principles: simplicity, equity, efficiency, and permanency. In the utopian world where federal tax policy does undergo wholesale reform, expect ancillary regulatory benefits as well. Consider that a 50 percent reduction in the IRS’s paperwork burden would generate roughly 4.5 billion hours

in savings. Even assuming a conservative \$20 per hour rate for IRS compliance, that would equal \$90 billion in annual savings.

Don’t hold your breath for that, unfortunately. Yet, anyone interested in learning the history of the current tax code and surveying its failures would do well to review the work of Fichtner and Feldman. R

READINGS

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Progressivism’s Tainted Label

◆ REVIEW BY PIERRE LEMIEUX

During a Democratic Party presidential debate this past February, Hillary Clinton and Bernie Sanders sparred over who was the most “progressive.” The label has a connotation of social reform. Liberals (in the American, as opposed to the classical, sense) and socialists are viewed as progressive. For many people, the term is nearly synonymous with “good.” Yet, if you know the history of the progressive movement, it will seem strange that some would try to reclaim such a tainted label.

What, really, was progressivism at the time of its zenith in America? Thomas Leonard’s book *Illiberal Reformers* casts a scholarly but uncompromising eye on what was called the Progressive Era, which he conceives as stretching from the mid-1870s to the United States’ entry into the Great War in 1917. In doing this, he combines the Gilded Age of the last quarter of the 19th century with what is more commonly considered the Progressive Era, starting about 1890.

The progressives wrote in the *New Republic* and in many scholarly journals of their times. Their academic centers were Columbia, Johns Hopkins, Wisconsin, and Pennsylvania, as well as the Institute for

Government Research, which became the Brookings Institution. Many progressives were activists in associations such as the American Association for Labor Legislation (AALL).

According to Leonard, an economist and research scholar at Princeton University’s Council of the Humanities, all progressives shared a “recognizable and historically specific set of intellectual understandings.” First, they opposed individualism and classical liberalism. Second, they wanted to replace the waste of capitalism with the efficiency of experts and social engineers—the “fourth branch of government” or “administrative state”—working for the common good. Third, they opposed what they saw as monopolies.

Eugenics / The most glaring example of the progressives’ illiberalism was eugenics. A signature idea of the Progressive Era, eugenics, Leonard reminds us, “describes the movement to improve heredity by the

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social control of human breeding”:

Racial health was too important to be left unregulated. The individual's liberty to make her reproductive, marital, labor, and locational choices free from state interference ended precisely where her choices were seen to endanger the health of the race.

The “health of the race” was subject to externalities (in today's economic parlance) that justified widespread government intervention.

Eugenics was (mistakenly) inspired by Darwin's evolutionary theory, but with a twist: evolution could be bettered by state intervention. The nation, often identified with the race, could be improved if the state encouraged the breeding of the fittest individuals and discouraged the breeding of individuals with bad heredity. The progressives wanted “social selection” to replace and improve natural selection.

Most progressives apparently shared biologist Jean-Baptiste Lamarck's belief that acquired traits such as virtues and vices were genetically transmitted. Eugenics called for lifting the poor out of poverty by improving their offspring. It also meant fighting “race poisons” like alcohol, tobacco, meat, and promiscuity. Progressive economist Irving Fisher viewed public health and eugenics as a joint campaign. Lester Frank Ward, an early progressive who became the first president of the American Sociological Association, provided a prudential argument: until science has conclusively ruled out the environmental determinants of heredity à la Lamarck, he argued, it is prudent to “hug the delusion.” In case of scientific doubt, the state must intervene for the good side.

If the poor and socially defective could not be uplifted, their breeding had to be controlled. Political journalist Herbert

Croly, co-founder of the New Republic, believed that the state had a responsibility to “interfere on behalf of the really fittest” and improve human nature by improving “the methods whereby men and women are bred.” Richard T. Ely, a famous progressive economist and main founder of the American Economic Association (AEA), opined that “there are certain human beings who are absolutely unfit, and should be prevented from a continuation of their kind.”

These were not pious wishes. Compulsory sterilization was practiced in 30 states, starting with Indiana in 1907. Before he became president in 1913, New Jersey governor Woodrow Wilson signed his state's forcible sterilization law in 1911, targeting “the hopelessly defective and criminal classes.” Some 30,000 persons were sterilized between 1920 and 1939. Compulsory sterilization was approved by the U.S. Supreme Court in an infamous 1927 decision, where the majority, including progressive justice Louis Brandeis, declared that “the

principle that sustains compulsory vaccination is broad enough to cover cutting the Fallopian.”

Like today's public health movement (see “The Dangers of ‘Public Health,’” Fall 2015), eugenics was both a scientific and social movement. Most well-known scientists and intellectuals in the Progressive Era were eugenicists. Everybody fashionable was in favor, including conservatives and socialists. Leonard notes that Frank A. Fetter, “sometimes regarded as part of the Austrian tradition in economics,” also adhered to eugenics.

Debauch of competition/ Progressive ideas were radically opposed to classical liberalism. Like today's liberals, the progressives were not extreme state socialists, but they looked with great suspicion on any market that was not tightly regulated. They

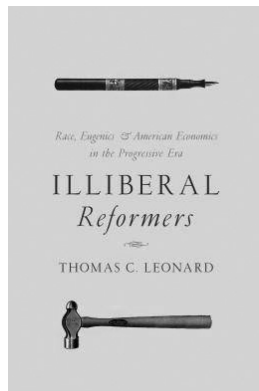
enlisted in a crusade “to dismantle laissez-faire and remake American economic life through the agency of an administrative state,” Leonard writes. They saw free markets as neither efficient nor moral. Economic freedom was not adapted to the requirements of the new, large-scale, diversified business firms that depended on scientific management and planning. Ely believed that unregulated markets were forcing “the level of economic life down to the moral standard of the worst men.”

Contrary to the populists, the progressives were not against business size per se; on the contrary, they “regarded small business as inefficient and outmoded.” The problem was competition and the unregulated market. Large, efficient firms were necessary but had to be coordinated by the state, progressives believed, and industry barons often agreed. As a Chicago asphalt industrialist lamented, progressivism must save humanity from the “debauch of competition.”

For the progressives, efficiency could only be the product of government management and economic planning. New Dealers such as economist Rexford Guy Tugwell were soon to buy these ideas. (See “Total Regulation for the Greater Whole,” Fall 2014.)

Progressive economists opposed economic freedom. The founding core of the AEA was comprised of young economists who had studied in Germany. They had come home imbued with the theses of the German Historical School whose teachings were very different from classical economics and from the developing neoclassical and Austrian schools. According to German historicists, there was no place for a general economic theory; everything depended on historical and national circumstances, and economists were at the service of their national state.

German political thought exerted a major influence on the progressives. John Burgess, a pioneering American political scientist and professor at Columbia University, had also studied in Germany. He thought that Great Britain was America's motherland and that Germany was “the motherland of our motherland.”



**Illiberal Reformers:
Race, Eugenics, and
American Economics
in the Progressive Era**

By **Thomas C. Leonard**
264 pp.; Princeton
University Press, 2016

Charles McCarthy, a progressive Wisconsin bureaucrat, argued that his state, a beacon of progressivism, was a “German state” because many Wisconsinites were of Teutonic stock. Like many observers at the time, Frederic C. Howe, a former student of Ely, saw Germany as the most advanced scientific state in the world, just as Wisconsin was in America.

Religious and temperance leaders were at the forefront of social reform. Twenty-three of the 55 charter members of the AEA were clergymen. The reformists preached a “social gospel” where social salvation substituted for individual salvation. Sociologist Edward Alsworth Ross believed that sin was social in cause. Fisher thought that eugenics was “the foremost plan of human redemption” and that Americans “must make of Eugenics a religion.” Christian economic reform, said social gospeler Walter Rauschenbusch, was about “saving the social organism.”

Ultimately, Leonard observes, “the social gospel economists, like all progressives, turned to the state.” “God works through the state,” claimed Ely. “Redemption,” Leonard continues, “required more than providing the poor with what they wanted but lacked; it required teaching the poor what they *should* want.”

Anti-individualism / Progressivism was built on an anti-individualist philosophy. Society was the first reality in both a methodological and a political sense, a concept that was defended by the then-developing field of sociology. Society is “an enlarged individual,” Croly wrote. Ely believed it was “strictly and literally true” that society is an organism. Ward, whom Leonard label “the intellectual spearhead of the progressive assault on laissez-faire,” imagined a “collective mind of society.”

Individuals were cells of the social organism, and could have no rights against the whole. For social gospeler Washington Gladden, an AEA charter member, respect for individual liberty was “a radical defect in the thinking of the average American.” Woodrow Wilson thought that government itself was “a living thing” and that the idea

of divided government was outdated.

Eugenics was an application of these anti-individualist ideas. Scott Nearing, a radical economist, thought that “persons with transmissible defects have no right to parenthood, and a sane society in its efforts to maintain its race standards would absolutely forbid hereditary defectives to procreate their kind.”

The progressives harbored a naive belief in science and management. They called for disinterested experts—government bureaucrats or advisers—to replace corrupted politicians in running government and directing society. Sociologist Charles Horton Cooley wanted a “comprehensive and ‘scientific management’ of mankind.” Charles R. Van Hise, president of the University of Wisconsin, favored a “government of experts.”

The progressives trusted the state completely. They did not share the classical economists’ conscience of government failure—even those economists, such as John Stuart Mill, who accepted wider government functions. Leonard notes that “laissez-faire’s standing derived less from worshipful celebrations of capitalism’s self-regulating powers than it did from prolonged contact with government failure.” For the progressives, a powerful, centralized administrative state was needed in place of decentralized and divided government. The progressives nominally believed in democracy, but could never reconcile this belief with their desire to have experts control people’s activities for the public good.

One of the many telling quotes in *Illiberal Reformers* comes from Grosvenor Clarkson, a member of the World War I-era War Industries Board. According to Clarkson, the war planning effort had converted 100 million “comparatively individualistic people into a vast cooperative effort in which the good of the unit was sacrificed to the good of the whole.” For him, this development of collectivism had almost made war “appear a blessing instead of a curse.”

Racism and immigration / Racism—a special form of anti-individualism—was an essential component of eugenics and pro-

gressive thought. All colored races were judged inferior. “Disenfranchising Southern blacks,” Leonard observes, “was ... a typical progressive reform.” The author of *Illiberal Reformers* points out that only white Anglo-Saxon men (including people of German stock, of course) escaped the charge of hereditary inferiority. Even backward Appalachian whites could be educated and saved from degeneracy. French Canadians and the Irish did not quite make the cut. Progressive economist John R. Commons estimated that 14% of Americans were genetically inferior: the 12% who were black plus the 2% who had mental or physical defects. The “inferior” minorities could perhaps have taken solace in the conclusions of intelligence tests run on WWI draftees and published under the auspices of the National Academy of Sciences and the Surgeon General: 54% were classified as “morons.”

Immigrants were considered to be especially dangerous. The progressives fueled the high wave of anti-immigration sentiment that swept America beginning in the late 19th century. Immigrants from Asia and eastern and southern Europe brought degenerate heredity that threatened the American “germ plasm.” Frances Willard, leader of the Women’s Christian Temperance Union, agitated for race-based immigration and against Catholic immigrants.

Immigrants competed with native labor and, claimed the progressives, pushed down domestic wages. “Competition,” complained Commons, “has no respect for superior races.” This claim, as Leonard explains, was based on the “living-standard” theory of wages, according to which workers accustomed to a low standard of living would draw down the wages of normal workingmen. This theory of wages contradicted the neoclassical theory of marginal productivity developed by John Bates Clark in the late 1880s as part of the marginalist revolution in economics. According to marginal-productivity theory, labor, like any other factor of production, is paid the value of its marginal productivity—that is, what the last laborer (in a certain category of labor) adds in

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value to the economy. In this perspective, immigrants were paid less because they typically were less productive laborers, but that didn't push all wages down.

According to living-wage theory, immigrants only compounded the same downward effect that domestic defectives and unemployables had on wages. The so-called "unemployables" were typically workers whom the progressives though should not have jobs precisely because of their supposed effect on other workers' wages. As University of Chicago sociologist Charles Richmond Henderson explained, the unemployables were those who "bid low against competent and self-supporting men." All these inferiors, immigrants, and domestic unemployables bid down wages in a race to the bottom.

Supposedly, the "competent and self-supporting" workers' reduced wages resulted in their fathering fewer children, increasing the degenerative effect of domestic and imported defectives. An uncontrolled labor market thus led to "race suicide." In Leonard's words, for the progressives, "hereditary inferiority threatened both the American workingman and American racial integrity."

Minimum wage for exclusion / Hence, the labor market had to be controlled with minimum wages and other standards in order to keep immigrants and domestic defectives—as well as women—out of the workforce. "A minimum wage," writes Leonard, "was the holy grail of American progressive reform." Progressives understood that a minimum wage would cause unemployment, but that's precisely why they wanted it: to keep the less productive out of the market. Royal Meeker, a Columbia-trained economist and founder of the International Labor Organization, also supported the minimum wage; in his opinion, the state should both push the inefficients out of work and prevent the multiplication of their breed.

In the 1910s, progressives had minimum wage laws adopted in 15 states, starting in Massachusetts in 1912, plus the District of Columbia and Puerto Rico.

But like maximum-hour legislation, minimum wages applied only to women (and to male public-works and railroad workers). The progressives viewed women as both helpless victims of capitalism and a threat on the labor market. By pushing them out of the market, a minimum wage killed two birds with one stone.

Women were viewed as both inferiors and "mothers of the race"—one of many contradictions in the progressive ideology. Commons, mover of Wisconsin's 1913 minimum wage for women, argued that it protected the "welfare of the race and the nation." In progressive thought, race, nation, hierarchy, and state power all fit together.

Following the herd / How could so many people be seduced by so many noxious ideas? One easy answer lies in the power of fads, which does not spare the intellectual world. (See "Following the Herd," Winter 2003–2004.) During the Progressive Era, a rejection of classical liberalism colored the whole Western world. The progressives' totalitarian ideas could spread unchallenged.

Eugenic thought was widespread and fashionable. In England, Sidney Webb, who together with his wife Beatrice were the figureheads of Fabian socialism, wrote that "no consistent eugenicist can be a 'Laissez Faire' individualist," for the rule of the game is "interfere, interfere, interfere!" A free-market economy, he believed, leads to "wrong production, both of commodities and of human beings."

Prestigious authors agreed. Virginia Woolf thought that imbeciles "should certainly be killed." T.S. Eliot favored sterilizing "defectives" to protect society. Leonard quotes a horrible reflection (and premonition) of D.H. Lawrence:

If I had my way, I would build a lethal chamber as big as the Crystal Palace, with a military band playing softly, and a Cinematograph working brightly, and then I'd go in back streets and main streets and bring them all in, all the sick, the halt, and the maimed; I would lead them gently, and they would smile at me.

Were American intellectuals especially prone to fall victims to the new ideals? It's not too hard to imagine young American students landing in Germany and falling under the spell of brilliant European culture and German elitist authoritarianism.

Lessons for today / *Illiberal Reformers* is a scholarly and prudent book, but we can also use it as a warning for today.

Politics often amplifies popular errors instead of dampening them. This may have been especially true with the development of federal power following the Civil War. The Constitution and the Bill of Rights were shaky protections against abusive government, although we later saw in Germany how much worse it could be without this sort of imperfect constraint on the state.

Invoking the common good or public welfare against individual liberty is more an excuse than a justification. As Leonard points out, the vision of an anthropomorphic social organism simplified "the problem of determining what 75 million people wanted." It is significant that the progressives could not agree on what was this common good, which they claimed to represent.

In reality, the common good or the public interest can only be defined in terms of "public goods" (goods or services that everybody wants but that can't be financed efficiently by the market), and even then it must be defined restrictively. The progressives did not understand that the common good is necessarily very abstract and unattainable through the administrative state.

The progressive conundrum over democracy and the administrative state was also unsolvable. As public choice analysis has since shown, the interventionist state is bound to be captured by interest groups or by its own bureaucrats. As Leonard notes, Thorstein Veblen, another progressive economist, "simply did not consider the prospect that a Soviet of engineers might fail to be selfless servants of the public good."

Still another lesson is that political majorities are always dangerous for minorities. In the Progressive Era, the rul-

ing majority (at least the majority of voters) was made of white, non-handicapped, Anglo-Saxon men. Our epoch also has its unpopular minorities, although they are better hidden and sometimes oppressed more humanely. Under the administrative state we have inherited from the progressives, who will be the persecuted minorities of the future?

We must be suspicious of hastily embraced popular ideologies. They must be constantly challenged. Many observations contradicted the progressive ideology. Acquired traits are not transmissible: cutting off mice's tails, as biologist August Weisman did in 1889 to test Lamarck's evolutionary theory, does not produce new generations of short-tailed mice. Defining and measuring race is a difficult task: the progressives tried unsuccessfully with head sizes and shapes. World War I revealed that the German state was not all that advanced after all. Fisher admitted that German economists had been prostitutes to their idealized state, but he then proceeded to propose a new grandiose agenda for the American administrative state.

In truth, the progressive ideology was rather laughable. Inferior groups were supposed to be simultaneously condemned to extinction for their deficiencies and yet dangerous to "superior" humans. An English sexologist, Havelock Ellis, thought that women's physical inferiority was caused by their having more water in their blood. Ely used the collective "we" in an incantatory, not scientific, fashion: "We can have just such a kind of economic life as we wish." Literally viewing society as a biological organism is nonsense. French classical liberal (and Academician) Émile Faguet mocked this organicist idea appropriately: "You think you were a man," he wrote, "in fact, you are a foot" (*Le Libéralisme*, Paris, 2002).

We (at least, we economists) like to think that economists are better prepared than other students of society to see through sociological blather, pseudo-scientific concoctions, and political snake oil because economic thinking is constrained by established, formalized theories that are based on methodological

individualism and a prejudice in favor of individual preferences and choices. A generation after the Progressive Era, this constraint proved beneficial: under Italian fascism, for example, the economists did not take the bait like the statisticians did. (See Jean-Guy Prévost's *A Total Science: Statistics in Liberal and Fascist Italy*, McGill-Queen's University Press, 2009.)

But this constraint was not helpful during the Progressive Era, partly because of the influence of the German Historical School.

Progressive economists were unable to see simple things, such as that competition between employers bid up wages as much as competition between workers bid them down. With a few exceptions—like William Graham Sumner, "the reform economists' bête noire," or John Bates Clark—economists during the Progressive Era fell headfirst for the new orthodoxy.

To reflect on the significance of the Progressive Era, *Illiberal Reformers* is a must-read. R

Applying Coase

◆◆ REVIEW BY TIMOTHY J. BRENNAN

Despite the author's Nobel Economics Prize and its standing as the most cited law review article in history, Ronald Coase's "The Problem of Social Cost" still seems unappreciated. Its core insight, that alleged externalities are at root the result of an inability to negotiate, fails to convince many readers who see environmental problems as the result of bad polluters harming innocent bystanders, requiring public policy to ensure that the bad guys are stopped. For this reason, the idea that one could best balance the benefits of reduced environmental harm with the costs of those reductions by creating property rights to facilitate subsequent negotiations still does not get the recognition it deserves.

Free Market Environmentalism for the Next Generation, the latest version of Terry Anderson and Donald Leal's compendium *Free Market Environmentalism*, follows the path opened by Coase. The book articulates the potential for resolving environmental conflicts through private solutions based upon negotiations between the beneficiaries of environmental protection and those who would bear its costs. The net of applications is cast far and wide, including potential markets for timber, grazing, water, and fishing rights. The contributing authors make a persuasive case that environmentalists should

avoid the "nirvana fallacy" and recognize that government action is slow, cumbersome, and—perhaps most important—too rigid to reverse error and adapt to changed circumstances, especially with multiple agencies having jurisdiction. Moreover, government is not without its transaction costs. Of course, one should watch out for the reverse "nirvana fallacy," the belief that no market failure is as bad as any policy to address it.

Winning the battle / Because the Coase-based perspective on market failure in general and environmental externalities in particular still may not get the attention it deserves, and because an unduly optimistic view of government often implicitly colors beliefs regarding the effectiveness of policy, *Free Market Environmentalism for the Next Generation* deserves a place on the reading list in virtually any environmental economics or policy course. But an instructor of such a course, or a policy adviser relying on the book, should keep a few things in mind.

One is that the admittedly appealing renegade tone of the book is not entirely

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