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FREAKONOMICS

**A ROGUE ECONOMIST EXPLORES
THE HIDDEN SIDE OF EVERYTHING**

“Prepare to be dazzled.”

— Malcolm Gladwell, author of *The Tipping Point* and *Blink*



STEVEN D. LEVITT
AND STEPHEN J. DUBNER

FREAKONOMICS

A Rogue Economist

Explores the Hidden

Side of Everything

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and Stephen J. Dubner

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AN EXPLANATORY NOTE

The most brilliant young economist in America—the one so deemed, at least, by a jury of his elders—brakes to a stop at a traffic light on Chicago’s south side. It is a sunny day in mid-June. He drives an aging green Chevy Cavalier with a dusty dashboard and a window that doesn’t quite shut, producing a dull roar at highway speeds.

But the car is quiet for now, as are the noontime streets: gas stations, boundless concrete, brick buildings with plywood windows.

An elderly homeless man approaches. It says he is homeless right on his sign, which also asks for money. He wears a torn jacket, too heavy for the warm day, and a grimy red baseball cap.

The economist doesn’t lock his doors or inch the car forward. Nor does he go scrounging for spare change. He just watches, as if through one-way glass. After a while, the homeless man moves along.

“He had nice headphones,” says the economist, still watching in the rearview mirror. “Well, nicer than the ones I have. Otherwise, it doesn’t look like he has many assets.”

Steven Levitt tends to see things differently than the average person. Differently, too, than the average economist. This is either a wonderful trait or a troubling one, depending on how you feel about economists.

—The New York Times Magazine, August 3, 2003

In the summer of 2003, *The New York Times Magazine* sent Stephen J. Dubner, an author and journalist, to write a profile of Steven D. Levitt, a heralded young economist at the University of Chicago.

Dubner, who was researching a book about the psychology of money, had lately been interviewing many economists and found that they often spoke English as if it were a fourth or fifth language. Levitt, who had just won the John Bates Clark Medal (awarded every two years to the best American economist under forty), had lately been interviewed by many journalists and found that their thinking wasn't very . . . *robust*, as an economist might say.

But Levitt decided that Dubner wasn't a complete idiot. And Dubner found that Levitt wasn't a human slide rule. The writer was dazzled by the inventiveness of the economist's work and his knack for explaining it. Despite Levitt's elite credentials (Harvard undergrad, a PhD from MIT, a stack of awards), he approached economics in a notably unorthodox way. He seemed to look at things not so much as an academic but as a very smart and curious explorer—a documentary filmmaker, perhaps, or a forensic investigator or a bookie whose markets ranged from sports to crime to pop culture. He professed little interest in the sort of monetary issues that come to mind when most people think about economics; he practically blustered with self-effacement. "I just don't know very much about the field of economics," he told Dubner at one point, swiping the hair from his eyes. "I'm not good at math, I don't know a lot of econometrics, and I also don't know how to do theory. If you ask me about whether the stock market's going to go up or down, if you ask me whether the economy's

going to grow or shrink, if you ask me whether deflation's good or bad, if you ask me about taxes—I mean, it would be total fakery if I said I knew anything about any of those things.”

What interested Levitt were the stuff and riddles of everyday life. His investigations were a feast for anyone wanting to know how the world really works. His singular attitude was evoked in Dubner's resulting article:

As Levitt sees it, economics is a science with excellent tools for gaining answers but a serious shortage of interesting questions. His particular gift is the ability to ask such questions. For instance: If drug dealers make so much money, why do they still live with their mothers? Which is more dangerous, a gun or a swimming pool? What really caused crime rates to plunge during the past decade? Do real-estate agents have their clients' best interests at heart? Why do black parents give their children names that may hurt their career prospects? Do schoolteachers cheat to meet high-stakes testing standards? Is sumo wrestling corrupt?

And how does a homeless man in tattered clothing afford \$50 headphones?

Many people—including a fair number of his peers—might not recognize Levitt's work as economics at all. But he has merely distilled the so-called dismal science to its most primal aim: explaining how people get what they want. Unlike most academics, he is unafraid of using personal observations and curiosities; he is also unafraid of anecdote and storytelling (but he is afraid of calculus). He is an intuitionist. He sifts through a pile of data to find a story that no one else has found. He figures a way to measure an effect that veteran economists had declared unmeasurable. His abiding interests—though he says he has never trafficked in them himself—are cheating, corruption, and crime.

Levitt's blazing curiosity also proved attractive to thousands of *New York Times* readers. He was beset by questions and queries, riddles and requests—from General Motors and the New York Yankees and U.S. senators but also from prisoners and parents and a man who for twenty years had kept precise data on his sales of bagels. A former Tour de France champion called Levitt to ask his help in proving that the current Tour is rife with doping; the Central Intelligence Agency wanted to know how Levitt might use data to catch money launderers and terrorists.

What they were all responding to was the force of Levitt's underlying belief: that the modern world, despite a surfeit of obfuscation, complication, and downright deceit, is *not* impenetrable, is *not* unknowable, and—if the right questions are asked—is even more intriguing than we think. All it takes is a new way of looking.

In New York City, the publishers were telling Levitt he should write a book.

“Write a book?” he said. “I don't want to write a book.” He already had a million more riddles to solve than time to solve them. Nor did he think himself much of a writer. So he said that no, he wasn't interested—“unless,” he proposed, “maybe Dubner and I could do it together.”

Collaboration isn't for everyone. But the two of them—henceforth known as the two of *us*—decided to talk things over to see if such a book might work. We decided it could. We hope you agree.

Levitt had an interview for the Society of Fellows, the venerable intellectual clubhouse at Harvard that pays young scholars to do their own work, for three years, with no commitments. Levitt felt he didn't stand a chance. For starters, he didn't consider himself an intellectual. He would be interviewed over dinner by the senior fellows, a collection of world-renowned philosophers, scientists, and historians. He worried he wouldn't have enough conversation to last even the first course.

Disquietingly, one of the senior fellows said to Levitt, "I'm having a hard time seeing the unifying theme of your work. Could you explain it?"

Levitt was stymied. He had no idea what his unifying theme was, or if he even had one.

Amartya Sen, the future Nobel-winning economist, jumped in and neatly summarized what he saw as Levitt's theme.

Yes, Levitt said eagerly, that's my theme.

Another fellow then offered another theme.

You're right, said Levitt, that's my theme.

And so it went, like dogs tugging at a bone, until the philosopher Robert Nozick interrupted.

"How old are you, Steve?" he asked.

"Twenty-six."

Nozick turned to the other fellows: "He's twenty-six years old. Why does he need to have a unifying theme? Maybe he's going to be one of those people who's so talented he doesn't need one. He'll take a question and he'll just answer it, and it'll be fine."

—THE NEW YORK TIMES MAGAZINE, AUGUST 3, 2003

INTRODUCTION: The Hidden Side of Everything

Anyone living in the United States in the early 1990s and paying even a whisper of attention to the nightly news or a daily paper could be forgiven for having been scared out of his skin.

The culprit was crime. It had been rising relentlessly—a graph plotting the crime rate in any American city over recent decades looked like a ski slope in profile—and it seemed now to herald the end of the world as we knew it. Death by gunfire, intentional and otherwise, had become commonplace. So too had carjacking and crack dealing, robbery and rape. Violent crime was a gruesome, constant companion. And things were about to get even worse. Much worse. All the experts were saying so.

The cause was the so-called superpredator. For a time, he was everywhere. Glowering from the cover of newsweeklies. Swaggering his way through foot-thick government reports. He was a scrawny, big-city teenager with a cheap gun in his hand and nothing in his heart but ruthlessness. There were thousands out there just like him,

we were told, a generation of killers about to hurl the country into deepest chaos.

In 1995 the criminologist James Alan Fox wrote a report for the U.S. attorney general that grimly detailed the coming spike in murders by teenagers. Fox proposed optimistic and pessimistic scenarios. In the optimistic scenario, he believed, the rate of teen homicides would rise another 15 percent over the next decade; in the pessimistic scenario, it would more than double. “The next crime wave will get so bad,” he said, “that it will make 1995 look like the good old days.”

Other criminologists, political scientists, and similarly learned forecasters laid out the same horrible future, as did President Clinton. “We know we’ve got about six years to turn this juvenile crime thing around,” Clinton said, “or our country is going to be living with chaos. And my successors will not be giving speeches about the wonderful opportunities of the global economy; they’ll be trying to keep body and soul together for people on the streets of these cities.” The smart money was plainly on the criminals.

And then, instead of going up and up and up, crime began to fall. And fall and fall and fall some more. The crime drop was startling in several respects. It was ubiquitous, with every category of crime falling in every part of the country. It was persistent, with incremental decreases year after year. And it was entirely unanticipated—especially by the very experts who had been predicting the opposite.

The magnitude of the reversal was astounding. The teenage murder rate, instead of rising 100 percent or even 15 percent as James Alan Fox had warned, fell more than 50 percent within five years. By 2000 the overall murder rate in the United States had dropped to its lowest level in thirty-five years. So had the rate of just about every other sort of crime, from assault to car theft.

Even though the experts had failed to anticipate the crime drop—which was in fact well under way even as they made their horrifying

predictions—they now hurried to explain it. Most of their theories sounded perfectly logical. It was the roaring 1990s economy, they said, that helped turn back crime. It was the proliferation of gun control laws, they said. It was the sort of innovative policing strategies put into place in New York City, where murders would fall from 2,245 in 1990 to 596 in 2003.

These theories were not only logical; they were also *encouraging*, for they attributed the crime drop to specific and recent human initiatives. If it was gun control and clever police strategies and better-paying jobs that quelled crime—well then, the power to stop criminals had been within our reach all along. As it would be the next time, God forbid, that crime got so bad.

These theories made their way, seemingly without question, from the experts' mouths to journalists' ears to the public's mind. In short course, they became conventional wisdom.

There was only one problem: they weren't true.

There was another factor, meanwhile, that *had* greatly contributed to the massive crime drop of the 1990s. It had taken shape more than twenty years earlier and concerned a young woman in Dallas named Norma McCorvey.

Like the proverbial butterfly that flaps its wings on one continent and eventually causes a hurricane on another, Norma McCorvey dramatically altered the course of events without intending to. All she had wanted was an abortion. She was a poor, uneducated, unskilled, alcoholic, drug-using twenty-one-year-old woman who had already given up two children for adoption and now, in 1970, found herself pregnant again. But in Texas, as in all but a few states at that time, abortion was illegal. McCorvey's cause came to be adopted by people far more powerful than she. They made her the lead plaintiff in a class-action lawsuit seeking to legalize abortion. The defendant was Henry Wade, the Dallas County district attorney. The case ultimately

made it to the U.S. Supreme Court, by which time McCorvey's name had been disguised as Jane Roe. On January 22, 1973, the court ruled in favor of Ms. Roe, allowing legalized abortion throughout the country. By this time, of course, it was far too late for Ms. McCorvey/Roe to have her abortion. She had given birth and put the child up for adoption. (Years later she would renounce her allegiance to legalized abortion and become a pro-life activist.)

So how did *Roe v. Wade* help trigger, a generation later, the greatest crime drop in recorded history?

As far as crime is concerned, it turns out that not all children are born equal. Not even close. Decades of studies have shown that a child born into an adverse family environment is far more likely than other children to become a criminal. And the millions of women most likely to have an abortion in the wake of *Roe v. Wade*—poor, unmarried, and teenage mothers for whom illegal abortions had been too expensive or too hard to get—were often models of adversity. They were the very women whose children, if born, would have been much more likely than average to become criminals. But because of *Roe v. Wade*, these children *weren't* being born. This powerful cause would have a drastic, distant effect: years later, just as these unborn children would have entered their criminal primes, the rate of crime began to plummet.

It wasn't gun control or a strong economy or new police strategies that finally blunted the American crime wave. It was, among other factors, the reality that the pool of potential criminals had dramatically shrunk.

Now, as the crime-drop experts (the former crime doomsayers) spun their theories to the media, how many times did they cite legalized abortion as a cause?

Zero.

It is the quintessential blend of commerce and camaraderie: you hire a real-estate agent to sell your home.

She sizes up its charms, snaps some pictures, sets the price, writes a seductive ad, shows the house aggressively, negotiates the offers, and sees the deal through to its end. Sure, it's a lot of work, but she's getting a nice cut. On the sale of a \$300,000 house, a typical 6 percent agent fee yields \$18,000. Eighteen thousand dollars, you say to yourself: that's a lot of money. But you also tell yourself that you never could have sold the house for \$300,000 on your own. The agent knew how to—what's that phrase she used?—"maximize the house's value." She got you top dollar, right?

Right?

A real-estate agent is a different breed of expert than a criminologist, but she is every bit the expert. That is, she knows her field far better than the layman on whose behalf she is acting. She is better informed about the house's value, the state of the housing market, even the buyer's frame of mind. You depend on her for this information. That, in fact, is why you hired an expert.

As the world has grown more specialized, countless such experts have made themselves similarly indispensable. Doctors, lawyers, contractors, stockbrokers, auto mechanics, mortgage brokers, financial planners: they all enjoy a gigantic informational advantage. And they use that advantage to help you, the person who hired them, get exactly what you want for the best price.

Right?

It would be lovely to think so. But experts are human, and humans respond to incentives. How any given expert treats you, therefore, will depend on how that expert's incentives are set up. Sometimes his incentives may work in your favor. For instance: a study of California auto mechanics found they often passed up a small repair bill by letting failing cars pass emissions inspections—the reason being that

lenient mechanics are rewarded with repeat business. But in a different case, an expert's incentives may work against you. In a medical study, it turned out that obstetricians in areas with declining birth rates are much more likely to perform cesarean-section deliveries than obstetricians in growing areas—suggesting that, when business is tough, doctors try to ring up more expensive procedures.

It is one thing to muse about experts' abusing their position and another to prove it. The best way to do so would be to measure how an expert treats you versus how he performs the same service for himself. Unfortunately a surgeon doesn't operate on himself. Nor is his medical file a matter of public record; neither is an auto mechanic's repair log for his own car.

Real-estate sales, however, *are* a matter of public record. And real-estate agents often do sell their own homes. A recent set of data covering the sale of nearly 100,000 houses in suburban Chicago shows that more than 3,000 of those houses were owned by the agents themselves.

Before plunging into the data, it helps to ask a question: what is the real-estate agent's incentive when she is selling her own home? Simple: to make the best deal possible. Presumably this is also your incentive when you are selling your home. And so your incentive and the real-estate agent's incentive would seem to be nicely aligned. Her commission, after all, is based on the sale price.

But as incentives go, commissions are tricky. First of all, a 6 percent real-estate commission is typically split between the seller's agent and the buyer's. Each agent then kicks back half of her take to the agency. Which means that only 1.5 percent of the purchase price goes directly into your agent's pocket.

So on the sale of your \$300,000 house, her personal take of the \$18,000 commission is \$4,500. Still not bad, you say. But what if the house was actually worth more than \$300,000? What if, with a little

more effort and patience and a few more newspaper ads, she could have sold it for \$310,000? After the commission, that puts an additional \$9,400 in your pocket. But the agent's additional share—her personal 1.5 percent of the extra \$10,000—is a mere \$150. If you earn \$9,400 while she earns only \$150, maybe your incentives aren't aligned after all. (Especially when she's the one paying for the ads and doing all the work.) Is the agent willing to put out all that extra time, money, and energy for just \$150?

There's one way to find out: measure the difference between the sales data for houses that belong to real-estate agents themselves and the houses they sold on behalf of clients. Using the data from the sales of those 100,000 Chicago homes, and controlling for any number of variables—location, age and quality of the house, aesthetics, and so on—it turns out that a real-estate agent keeps her own home on the market an average of ten days longer and sells it for an extra 3-plus percent, or \$10,000 on a \$300,000 house. When she sells her own house, an agent holds out for the best offer; when she sells yours, she pushes you to take the first decent offer that comes along. Like a stockbroker churning commissions, she wants to make deals and make them fast. Why not? Her share of a better offer—\$150—is too puny an incentive to encourage her to do otherwise.

Of all the truisms about politics, one is held to be truer than the rest: money buys elections. Arnold Schwarzenegger, Michael Bloomberg, Jon Corzine—these are but a few recent, dramatic examples of the truism at work. (Disregard for a moment the contrary examples of Howard Dean, Steve Forbes, Michael Huffington, and especially Thomas Golisano, who over the course of three gubernatorial elections in New York spent \$93 million of his own money and won 4 percent, 8 percent, and 14 percent, respectively, of the vote.) Most

people would agree that money has an undue influence on elections and that far too much money is spent on political campaigns.

Indeed, election data show it is true that the candidate who spends more money in a campaign usually wins. But is money the *cause* of the victory?

It might seem logical to think so, much as it might have seemed logical that a booming 1990s economy helped reduce crime. But just because two things are correlated does not mean that one causes the other. A correlation simply means that a relationship exists between two factors—let's call them *X* and *Y*—but it tells you nothing about the direction of that relationship. It's possible that *X* causes *Y*; it's also possible that *Y* causes *X*; and it may be that *X* and *Y* are both being caused by some other factor, *Z*.

Think about this correlation: cities with a lot of murders also tend to have a lot of police officers. Consider now the police/murder correlation in a pair of real cities. Denver and Washington, D.C., have about the same population—but Washington has nearly three times as many police as Denver, and it also has eight times the number of murders. Unless you have more information, however, it's hard to say what's causing what. Someone who didn't know better might contemplate these figures and conclude that it is all those extra police in Washington who are causing the extra murders. Such wayward thinking, which has a long history, generally provokes a wayward response. Consider the folktale of the czar who learned that the most disease-ridden province in his empire was also the province with the most doctors. His solution? He promptly ordered all the doctors shot dead.

Now, returning to the issue of campaign spending: in order to figure out the relationship between money and elections, it helps to consider the incentives at play in campaign finance. Let's say you are the kind of person who might contribute \$1,000 to a candidate. Chances are you'll give the money in one of two situations: a close race, in

which you think the money will influence the outcome; or a campaign in which one candidate is a sure winner and you would like to bask in reflected glory or receive some future in-kind consideration. The one candidate you *won't* contribute to is a sure loser. (Just ask any presidential hopeful who bombs in Iowa and New Hampshire.) So front-runners and incumbents raise a lot more money than long shots. And what about spending that money? Incumbents and front-runners obviously have more cash, but they only spend a lot of it when they stand a legitimate chance of losing; otherwise, why dip into a war chest that might be more useful later on, when a more formidable opponent appears?

Now picture two candidates, one intrinsically appealing and the other not so. The appealing candidate raises much more money and wins easily. But was it the money that won him the votes, or was it his appeal that won the votes *and* the money?

That's a crucial question but a very hard one to answer. Voter appeal, after all, isn't easy to quantify. How can it be measured?

It can't, really—except in one special case. The key is to measure a candidate against . . . himself. That is, Candidate A today is likely to be similar to Candidate A two or four years hence. The same could be said for Candidate B. If only Candidate A ran against Candidate B in two consecutive elections but in each case spent different amounts of money. Then, with the candidates' appeal more or less constant, we could measure the money's impact.

As it turns out, the same two candidates run against each other in consecutive elections all the time—indeed, in nearly a thousand U.S. congressional races since 1972. What do the numbers have to say about such cases?

Here's the surprise: the amount of money spent by the candidates *hardly matters at all*. A winning candidate can cut his spending in half and lose only 1 percent of the vote. Meanwhile, a losing candidate

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