

## TW Notes on

Robert Frank (2011) *The Darwin Economy*  
Princeton

The book focuses on criticizing extreme right wing libertarianism and the "powerful meme ... that government is the source of all ills" p4

He predicts that in 100 years Darwin not Smith will be considered the ~~correct~~ intellectual faith of economists because of their differences in view of the competitive process because Darwin emphasized that the interests of the individual may often differ from those of the group.

In addition to the standard public goods and externality arguments he ~~"we can't pretend stress~~ the role of positional goods and cases where returns to production are a function of relative position with winner-take-all markets being the most extreme example

Besides sports and entertainment he argues that the finance industry is a good example

"The Darwinian framework is the only scientific framework available for trying to understand human and other animals are motivated to behave as they do" p 24

"Human motivation is extremely complex and multidimensional"  
 There's lots of everyday and neuro science evidence that concern with relative positions are "part of the evolved circuitry of the human brain" p 28

"no economic model can hope to capture how markets actually function unless it begins with the assumption that context shapes evaluation in significant ways" p 27

"The power of ideology to disable the capacity for critical thinking" p 28

Here argue there's more waste in the private than the public sector

In 1980s CEOs of large companies earned about 40x the average worker.

Now its > 400 times. Be factors are the growth of companies, expanded markets and reductions in promotion from within.

expenditure cascades

He stresses the importance of Coase and that Coase understood that there were many barriers to efficient contracts.

positional externalities

The waste from too many people going into winner-take-all markets.

This is increased by information bias and the tendency for people to overestimate their abilities.

"The incentives confronting a pursuing portfolio manager are exactly analogous [to the tragedy of the commons]. [p165] As a result "private incentives result in wasteful overcrowding."

"The number of profitable deals to be had is not indefinitely expandable. Beyond some point, sending ever larger numbers of our most talented graduates out to prospect for them was high opportunity cost, yet added little economic value" p 167