The Quarterly Journal of Austrian Economics

VOL. 19 | No. 1 | 85–100
SPRING 2016

Review Essay

Phishing for Phools: The Economics of Manipulation and Deception

George A. Akerlof and Robert J. Shiller
Princeton, N.J.: Princeton University Press, 2015, 272 pp.

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This book tells its readers a great deal about the inner workings of mainstream economics, particularly behavioral economics. This review details just how far the profession has drifted from reality. My general impression is that the authors are simply putting forth their opinions or perceptions of how the world should be, and then constructing a theory to justify those opinions. The theory is then supported by a selective construction of events.

The authors are both Nobel laureates and in 2009 wrote *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*. Here they argued that because of emotions

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and psychology, the government's response to the financial crisis must be decisive and overwhelming. The government's response, particularly the Federal Reserve's, gives the impression that the book was influential among policymakers.

George Akerlof, a retired Berkley professor, was trained at Yale and MIT. He was awarded the Nobel Prize in 2001 for his paper, "The Market for Lemons: Quality Uncertainty and the Market Mechanism." Akerlof was also the President of the Federal Reserve Bank of San Francisco and Chair of the President's Council of Economic Advisors during the Clinton Administration. He is also the husband of Janet Yellen, the current Chair of the Federal Reserve.

Robert Shiller, a Yale professor who also earned his PhD at MIT, was awarded the Nobel Prize in 2013 for his empirical analysis of asset prices. He is noteworthy as a contributor to the development of behavioral finance and as an opponent of the efficient market hypothesis. Unlike most mainstream economists, Shiller has made several correct forecasts of economic bubbles, including the dotcom bubble and the housing bubble.

Their general theory of markets involves a three step process. First, they begin with the notion that the free market is great at producing goods and services and rising standards of living. The coauthors claim to be "admirers of the free market system" (p. vii). The problem with this foundational assumption is that they think it applies to the real world.

To the contrary, the US and other leading economies of the world are not true free market economies in any sense. The US economy is riddled with high and distortive taxes, large and often hidden subsidies, price controls, and multiple, often overlapping regulatory agencies, to name just a few interventions. Government-granted monopolies permeate much of the US economy, and the US government has created pervasive moral hazards that distort our decision making. Thus, the current US economy is highly distorted and somewhat unstable because all of these interventions are subject to change. For example, no one would argue that farming would be exactly the same as farming without any government interventions in farming and related industries.

Also, the U.S. interventionist state apparatus did not just recently materialize, but has been around for a very long time. That means

there is a long history of intervention; including irregular cycles of wars, inflations, tax reforms, public enterprises and monopolies, to name a few. Therefore, the current economy is not only a product of current conditions, but is also influenced by a history of interventions. An example of the effects of interventionism would be that children who grew up during the Great Depression are systematically more frugal and more likely to be "pack rats." Another example is the lifelong negative psychological, physical, and economic consequences that soldiers often experience after working in traumatic wartime conditions. It would be hard to argue that these two features of reality can be easily ignored, but such features of policy and historical context are ignored throughout the book. This ignorance is the basis of many of the authors' errors.

The second step in their general theory of markets is the notion that markets have systemic problems of trickery. In most instances people trade in such a way that both parties benefit, but the authors argue that there are many cases where competition creates problems. These problems typically consist of instances where someone is sold something they didn't want, or need, or that the authors have concluded they should not want. This type of problem is spawned by the nature of the "free market" economic system:

> Many of our problems come from the *nature of the economic system itself*. If *business people* behave in the purely selfish and self-serving way that economic theory assumes, our free-market system tends to spawn manipulation and deception. The problem is not that there are a lot of evil people. Most people play by the rules and are just trying to make a good living. But, inevitably, the competitive pressure for *businessmen* to practice deception and manipulation in free markets lead [sic] us to buy, and to pay too much for, products that we do not need; to work at jobs that give us little sense of purpose; and to wonder why our lives have gone amiss (p. vii, emphasis added).

The third step in their general theory of markets is that when some deception or manipulation is established, it becomes embedded in the market. Market competition cannot overcome such problems. In the authors' words, free market competition results in a "phishing equilibrium." For example, the authors believe that cat owners who buy cans of cat food named "roast beef pâté" are caught in a phishing equilibrium. In other words, when a phishing for phools situation is established, it continues to

exist, until perhaps government intervention is introduced to stop it. It would seem that the authors have been confined throughout their careers inside the ivory tower without access to the Internet.

In contrast to the authors, everyone knows that there is some manipulation, deception, and trickery in the economy, whether it is fraud or the ordinary kind. Cat owners need not taste for the authenticity of the cat food manufacturers claims. Fluffy can render her own verdict. The economic questions are 1. What causes this behavior and 2. What tends to control or diminish this type of behavior? The first question will be a focus of much of this review.

The second question is answered by most Austrians by pointing to a true free market economy, laws against fraud, *caveat emptor* (let the buyer beware) and the ability of entrepreneurs to undermine the tricks of other entrepreneurs. This includes such things as product branding, company reputation, and "good will"[1] which forces entrepreneurs to meet the demands of consumers in order to protect their wealth. It involves product advertising (price and quality) that prevents other entrepreneurs from exploiting consumers. There are other concrete examples of why phishing for phools is not an equilibrium phenomenon, such as Angie's List, Home Advisor, *Consumer Reports*, and product reviews by customers on websites like Amazon.com. Many products are sold with money-back guarantees and warranties, and most consumers are leery of products or services without such features.[2]

In the authors' view, competition creates all sorts of opportunities for business people to take advantage of their customers and employees. They borrow the phrase "phishing for phools" from

[1] Good will is an accounting term to describe the value of a company that is not based on the physical and financial assets of the company. For example, if the market value of a company is $100 billion and its real estate and cash is worth $10 billion, then the company's good will is $90 billion. Good will is based on such things as the value of a company's brand name, good customer and employee relations, as well things such as patents. Entrepreneurs must remain ever vigilant because one adverse event can cause "good will" and thus the value of the company to evaporate immediately.

[2] They do mention Underwriters Laboratories, Consumers Union (which publishes *Consumer Reports*), and the Better Business Bureau as "heroes," but these are private sector institutions. Their existence would seem to undermine the theory of "phishing equilibrium."

Internet fraud and extend it to many areas of life. Their poster child of phishing for phools is Molly, who is addicted to slot machine gambling. For Akerlof and Shiller, it is the invention of the slot machine that is at fault and they would no doubt prohibit them if they could. In their view, they provide nothing beneficial and are harmful and therefore they are not needed. In doing so, the authors are a reversion to the secular Protestantism (or Puritanism) of the Progressive Era.

Molly proves to be a very poor poster child. I know dozens of friends and acquaintances that like to play slot machines, but none of them has a compulsion or addiction. They play once a month or once a year. They play "compulsively" for a day or so, or until their allotted money is gone. Some play irregularly for a few years and then drop casino gambling altogether. These people represent the general clientele of casinos and Molly does not.

In addition, we are told that slot machines have long been regulated by government (and therefore authorized for consumer use). Moreover, the state of Nevada takes as much money from Molly as the casinos. The state of Nevada essentially exchanges its seal of approval and oversight in exchange for part of the loot. Slot machines even have the state's seal of approval on them in the form of a license stamp.

To emphasize that Molly is a problem gambler, we are told that Molly is a loner and suffers from an anxiety disorder. Did slot machines make her a loner and cause her anxiety disorder? Or did her personal problems lead her to slot machines as a way to relieve or distract her from her problems? Akerlof and Shiller seem to have a one-dimensional view of addiction. For them, it seems that drugs, alcohol, tobacco, and gambling cause addiction and related social problems. However, professional addiction experts believe that psychological and social problems are likely contributing factors of addiction, even though they also involve chemical processes and sometimes genetic factors.[3]

Would Akerlof and Shiller prohibit slot machines? I think they would be inclined to do so. But why ruin the fun times of the

[3] See factors D,E,F, and G listed by the American Society of Addiction Medicine http://www.asam.org/for-the-public/definition-of-addiction (accessed 1/28/2016).

vast majority of gamblers who freely and knowingly exchange their money for a good time? Are we just supposed to ignore and completely discount entertainment value? More than two decades ago I lost $90 in the only time I really gambled in a casino, a memory that has been fondly recounted many times over the years. In addition, banning slot machines would unlikely help Mollie, who could simply switch to the state lottery, raffles, bingo, etc.

The first significant application for Akerlof and Shiller general theory of markets is to the very real problem of debt in America. Families do not have enough money to cover their bills, are deeply in debt, have little or no savings, and are at risk for foreclosure, bankruptcy, and eviction. So is their federal government. Even before real median family income started to decline, Americans were in troubling economic circumstances despite a several-fold increase in real income since WWII.

The reason we worry about not being able to pay our bills, according to Akerlof and Shiller, is the free market. "Free markets produce continual temptation" (p. 20). It produces both what we want and what we do not want/need:

> But free markets have also invented many more "needs" for us, and, also, new ways to sell us on those "needs." All these enticements explain why it is so hard for consumers to make ends meet. Most of us have better sense than to go in and buy the doggie (in the window), at least on a whim. But not all of us can be so rational—all of the time—when the streets and the supermarket aisles, and the malls, and now the Internet, are full to the brim with temptations (p. 21).

They later elaborate on this free market problem by indicting the credit card as the free market "magic spending pill." Of course the credit card does make it possible to temporarily spend more than one's income. It also is at the heart of our consumer debt problem.

But is it really the "free market" that is causing these problems? There are numerous reasons why that is not the case. First on this list in terms of importance would be Social Security and the government safety net that includes public housing, welfare, food stamps, unemployment insurance, etc. (a $2.5 trillion annual moral hazard). If these programs did not exist and people were forced to rely on themselves and charity, then there would surely be much more saving and wealth and less buying and debt.

Examining the save vs. spend decision, we find that the save side is taxed while borrow-and-spend gets a tax break.[4] With monetary and price inflation we find the save side is harmed, while the borrow-and-spend side gets a break. Monetary and fiscal policy, of the type dominating recent US experience for the last half century, has clearly been on the side of spending and against savings. It should not be surprising that, with the exception of recessions, the personal savings rate (as a percentage of disposable income) has systematically declined in recent decades. Why save a depreciating asset? Surely commodity money such as the gold standard should be thought of as free market money, and unbacked paper fiat money would not be considered free market money.

With respect to credit cards, they very much are a free market invention. However, in the original arrangement, card users paid an additional transaction fee on the purchase price, instead of the merchant paying a fee to the credit card companies as they do today. That all changed with the passage of the Truth in Lending Act of 1968 which mandated that credit card users be charged the same as cash purchases. This government intervention was surely the key factor for the "credit card revolution" that started in the early 1970s.

Why is the current generation of Americans so unlike previous generations with respect to spending, saving, and borrowing? Allusions to psychology, trickery, and consumerism caused by the free market seem very weak in comparison to the enormous and revolutionary changes we have experienced in terms of government intervention.

The world financial crisis that began in 2008 was the result, according to Akerlof and Shiller, of "Reputation Mining" by well established financial firms and rating agencies. Their story is that financial firms sold gullible customers overrated financial products, such as mortgage backed securities (MBS) and collateralized debt obligations (CDO). When this financial hanky panky was discovered, the "free market" began to collapse. It was only central bankers who were responsible for saving the day:

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[4] For corporations, interest expense is tax deductible while equity dividends are subject to double taxation (at the corporate and shareholder levels).

> Emergency loans by the Federal Reserve and by the European Central Bank, accompanied by massive fiscal support for "troubled assets" in the United States and Europe, averted worldwide financial collapse and reenactment of the Great Depression (p. 25).

Akerlof and Shiller ask the right questions that need to be addressed: "The institutions that produce securities, in the United States and in the world economy, changed between 1970 and 2005" (p. 26). Their answer for that change is that scrupulous and relatively unprofitable poor investment banks (circa 1970) expanded their businesses, played with their clients' money, and took on new and unknown risks (circa 2005). In doing so, they mined their own reputations.

According to Akerlof and Shiller, rating agencies began to see that the investment banks who paid for ratings wanted the *highest rating possible* and competitive market forces made these agencies, in effect, overrate financial securities issued by investment banks. As more and more complex financial instruments were created, it became even easier to overrate new issues. One common practice (in simplified form) was to take a group or "bloc" of low quality "junk" mortgages and to then slice that bloc into the likely number of similarly rated mortgages that would probably default and the likely number of mortgages that would not likely default. The slice or "tranche" that would not default could then be given the highest rating of AAA and the other slices would be given lower ratings or go unrated.

We find out only later what the authors mean by "worldwide financial collapse." Because investment banks financed their highly leveraged assets with "repos," it turns out that in the event of a shortfall, depositors could simply take the investment banks' assets that were linked or pledged to their deposits as collateral. Thus the investment banks were defeated from trying to hide in bankruptcy court. In other words, "worldwide financial collapse" means the free market punishes the big investment banks, like Goldman Sachs. Instead the Federal Reserve and the US Treasury bailed out those financial elites after they spent most of 2007 telling market participants that all was well and that the new financial products, such as MBS and CDO, were great inventions (Thornton, 2016).

It is clear that opportunistic behavior and reputation mining were taking place, but why and when did this change occur? While Akerlof and Shiller think the problem was due to reputation mining, other economists, including Paul Krugman, attribute the rating agency problems to the complexity of the new financial products. The actual answer is, in contrast, simple, straightforward and based on economic analysis.

The first factor is government regulation. Under the Basel Accords, banks are required to maintain certain capital requirements, which mandate that a certain ratio of capital to the assets they have on their books. The percentage of capital-to-assets is high for low quality assets and low for high quality assets. In other words, a bank can hold many more assets on its books if it has the highest rated assets (AA–AAA) than if it holds lower rated assets (BBB). So if a bank sells its lower rated mortgages to an investment bank that puts them into MBS packages, the bank can then buy the highly rated MBS packages—worth more than twice the assets—with the same amount of capital. That is what happened. It was regulation-driven incentives at work that caused banks to be more leveraged and to "unknowingly" take on toxic assets.

Another part of this story is that the federal government created a monopoly or oligopoly among the credit rating agencies. It mandated that assets be rated and that the rating be done by government-approved credit rating agencies which gave the big agencies a monopoly and stymied new competitors from entering the market. Under those monopolistic conditions, it would not be surprising if the credit rating agencies would not want to upset the apple cart that brought all those golden apples to them. They did not have to worry much about upstart or fringe rating agencies issuing conflicting ratings.

So why did things change "between 1970 and 2005"? Before 1970, the credit rating agencies sold the bulk of their ratings to the buyers of financial assets, but by 2005 they were selling the bulk of their ratings to the people issuing and selling the financial assets. This flip-flop was made complete by government interventions, but it began before the interventions. It will be suggested here that it really began at the time Nixon took the US and the world off the gold standard in 1971. With the anchor to gold broken, it is plausible that stock and bond issuers resorted to another important

and trustworthy anchor for the financial system—the highly scrupulous credit rating agencies.

Following this section, topics such as marketing, advertising, cable news, car shopping, home buying and credit cards are discussed. They consider all these situations to be cases of phishing for phools, but without much merit. It reminds me of the young John Stossel, the crusading investigative reporter, before he realized that such "fraud" was insignificant relative to the benefits of free market competition. Indeed, because of the Internet there has been a dramatic increase in the amount of information that consumers can access to improve their choices. Why do people feel so comfortable making purchases on eBay or Amazon? The answer is certainly not government regulation.

The section that follows tells us that the political process is rigged in favor of the crony capitalists to the detriment of citizens. This is clearly correct, but how did this happen? What might solve the problem without making things worse or violating our rights described in the Constitution? No good answers are provided.

"Chapter 6: Phood, Pharma and Phishing" turns out to be a very revealing chapter, not for its contents or analysis, but for its insight into the thinking and ideology of its authors. The chapter opens with Upton Sinclair's book *The Jungle* and some of the horrors of patent medicine, such as Swaim's Panacea. While the authors do correctly label Sinclair's book a novel, they fail to point out that many of the horrific claims made in the book were purely fictional or that the major meat packing companies were more than happy to turn over their cost of meat inspection to the taxpayer. Nor do they point out that Swaim's Panacea contained active, although potentially toxic ingredients, or that the product was endorsed by Dr. Nathaniel Chapman, who founded the American Medical Association. Nor do they point out that most of the products from the patent medicine era were either effective or were ineffective and intended to be a placebo cure, or that several of the products from that era, such as Bayer Aspirin, Vick's VapoRub, Goody's Powder, and Absorbine Jr., remain competitive today.[5]

[5] Yes, many patent medicines contained undisclosed narcotics that were addictive, but those medicines were the only available effective treatment for people who suffered from chronic pain.

And now we come to the authors' confession that they are predisposed to a belief in the efficacy of government intervention and regulation:

> Back in 2010, when we began this chapter on food and drugs, we intended it to be a "just so" story. We would go back to the nineteenth-century rotten meat and snake oil; we would tell of the passage of the Meat Inspection Act and the Pure Food and Drug Act, as we have done; then we would fast-forward to the twenty-first century. Our message would be "this time it's different": with-regulation now—in contrast to without-regulation then—food and drugs are safe. But when we undertook to describe modern times, we found a surprise. It's another case of "this time is different," but again with its ironic—rather than with its literal—meaning. The literal meaning just ain't so. Neither food nor drugs are now as safe as we had thought. Phishing goes on, avoiding the net of the regulators, now in more sophisticated ways (p. 86).

The authors readily admit that government regulation of food and drugs has not worked. They argue that competition has just changed the nature of the phishing. However, a more correct formulation would be that government intervention has probably made the problems worse. For example, one study by the CDC found that food poisoning led to 76 million illnesses, 325,000 hospitalizations, and 5000 deaths each year (Mead et al., 1999). FDA-approved drugs kill and harm every day, with the Vioxx scandal alone leading to 26,000–80,000 deaths. The problem has gotten worse over time.[6] When we combine these interventions with the government's food pyramid nutritional guidelines and the FDA/AMA's "a pill will fix that" mentality, we find that government intervention has created a gargantuan moral hazard in healthcare. Combined with the government subsidy for employer-paid comprehensive health insurance, the result is that the US has the most expensive healthcare system and the least healthy population of the major countries (Davis et al., 2014). This situation can be expected to get worse over time as current obesity and diabetes rates are projected demographically into the future.

The next chapter examines the mainstream economist's view of economic growth. The focus here is on Robert Solow's basic thesis that economic growth is driven largely by changes in ideas

[6] Another example is Levaquin's death toll of 1,277. See Steinreich (2015).

and technical changes, rather than increases in capital and labor. However, the authors raise the specter that there may be bad ideas mixed in with the good ideas, and that economic prosperity would then be overstated. Again, that seemed like a reasonable hypothesis to pursue.

The authors present very limited evidence of where new ideas have negative impact. The emphasis here is on the mere existence of impact, rather than the significance of the impact. The first new idea is Facebook, which I find rather odd, because it has done a great deal to improve my own standard of living at zero expense to me. They base their view on interviews they conducted with Yale University undergraduate students. The interviews revealed a love-hate relationship with Facebook, because despite all the good it does, Facebook also creates problems of envy when the students fail to get enough "likes" or invitations to events. The second debilitating idea is "Rankings Everywhere." They discuss airline boarding procedures where frequent flyers and first class ticket holders board first. It seems that the opportunity of early boarding made some Yale University students "smug." Their evidence seems amusingly insignificant. The very idea that Yale undergraduate students are envious and smug!

It is worth pointing out that economists are some of the biggest abusers of rankings. They rank economists, economic departments, economic journals, etc. and then base their real world evaluations, like pay increases and promotions, almost exclusively on such rankings. Rankings even determine the merit of economic theories.

Chapter 8 is on tobacco and alcohol. There is no doubt that tobacco is both addictive and dangerous to health. Of course, the negative health consequences typically only manifest themselves after decades of use, typically combined with other negative lifestyle factors. Anti-tobacco forces typically imply that smoking results in early death and that all smokers who die are "tobacco deaths." The reality is that cigarettes typically reduce life spans by marginal years.

Curiously, the authors blame the inventor of the cigarette rolling machine for tobacco health problems. However, the two main culprits are the medical profession and the government. The first reason for the rapid rise of lung cancer between the 1930s to the

1960s is that AMA-certified doctors endorsed cigarette brands in cigarette advertisements and that cigarette advertising was a critical factor in financing the *Journal of the American Medical Association*. The second factor was WWII, where the government gave out nearly 100 billion cigarettes to young soldiers.[7] Civilians also turned to cigarettes for anxiety relief during the war. It has famously been stated that "war is the health of the state," but it could also be said that war undermines the health of citizens.

This is an important issue for the case study used in the discussion of alcoholism. They start with a story of a very capable and accomplished individual who becomes an alcoholic and ruins his life and that of others and never achieves his potential. A crucial point in their case study is that the person "served in World War II, winning three battle stars for his role in the crossing of the Rhine and the Ruhr in the Allied advance into Germany." The authors place this point into the positive column of his abilities and accomplishments. However, my first thought was the man had experienced some of the most horrific war environments that American soldiers had experienced during WWII, and it could very well have been this experience that led to his alcoholism.

The S&L banking crisis of the early 1990s had a direct cost to taxpayers of nearly $147 billion dollars[8] plus the negative economic effects of the 1991 recession.[9] The authors imply that this crisis was the result of free market forces and accounting practices. "We will see a world where the usual economics, in which firms maximize their profits, is turned topsy-turvy; a world in which phishing, in the form of misleading (and sometimes fraudulent) accounting practices leads to bankruptcy; but still it is the road to riches" (p. 117). However, their narrative clearly undermines their point of view. Their story begins with Fed Chairman Paul Volcker raising interest rates in the early 1980s (the problems with the S&L industry date back several more decades). This made most of the Savings and Loan banks economically bankrupt, but "the (government) supervisors did not move in. Instead, not wanting to 'bail out' the

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[7] The large scale cigarette rolling machine was invented in 1880.

[8] The Sep. 1990 present-value cost was $147 billion. See Steinreich (2014).

[9] See for example, Steinreich (2014).

S&Ls, they let them remain open" (p. 118). Instead, government regulators relaxed accounting rules and allowed S&Ls to invest in assets other than housing. This encouraged the S&Ls to go on a reckless lending spree that increased the taxpayer bailout by about 400 percent. Therefore, to describe the S&L crisis as the fault of the free market is a complete deception.

Akerlof and Shiller's heroes are the bureaucrats and regulators who prevent the phishing of phools. However, their prime examples are surprising. First they mention government grain graders. The government does indeed have a classification system (since 1916), but grain grading has been around for a very long time and most inspection and grading is done by the private sector. The Chicago Board of Trade established its own grain grading standards in 1857 which allowed grain to be stored and shipped in bulk mechanically. This made farmers, the Board, and grain buyers more profitable as the Board experienced a 2,500 percent increase in its grain business in just four years. Second, they favorably mention Underwriters Laboratories and *Consumer Reports*, both of which are very successful, but private.

However, they point out one very important organization that is indeed a creature created by government, the Federal Reserve. Other than the previous mention of Fed Chair Paul Volcker, the Federal Reserve is mentioned three times, and in all three cases the Fed is praised for saving the world from another Great Depression, or worse. They admit that the recovery has been weak, "but, thank God, we have not entered the mini Dark Age of that earlier era, i.e. the Great Depression" (p. 134).

The authors place little credence in the role of the Fed *creating* a moral hazard for financial firms to take on ever increasing levels of risk and leverage. "But on the contrary, our view of finance, and the detailed factors that support our view, show that when run-ups in prices occur, they usually do so because of irrational exuberance" (p. 134). They find the Fed's role in creating moral hazard to be quite limited: "Such considerations, insofar as they existed, were of only marginal consideration in the euphoria that preceded the Crash of 2008" (p. 134).

This is quite a fantastic view. Central banks were well-known as moral hazards long before the founding of the Federal Reserve

in 1913. If a central bank acts as a lender of last resort, then banks will take on more risk on their balance sheets in terms of leverage and the riskiness of their loans and assets. They do this because the central bank will provide them with liquidity when other sources (e.g. depositors and other banks) will not. Everyone agrees on this point. That is why the Federal Reserve was established with strong guidelines and policies to limit the problems of moral hazard. Additionally, when the Fed was founded, it and the banks it oversaw were constrained by the gold standard and high reserve and capital requirements. Also, the discount rate is now a penalty rate in that it is set higher than the federal funds rate to discourage banks from directly borrowing from the Federal Reserve. So the Fed is by its nature a moral hazard, but one which is supposedly constrained by government regulations. It should also be noted that Fannie Mae, Freddie Mac, and the Federal Deposit Insurance Corporation also come with moral hazards for financial market participants.

It should also be noted that the Federal Reserve and the banking industry have been substantially deregulated, especially since 1980. To be brief, I will mention the Monetary Control Act of 1980, which started the liberalization of banking. In 1982, the Garn–St. Germain Act went even further by, among other things, exempting from reserve requirements the first $2 million of deposits in a bank. Also, the 3 percent reserve requirement on non-transaction accounts was eliminated at the end of 1990. The Financial Services Modernization Act of 1999, also known as the Gramm, Leach, Bliley Act, among other things, repealed the Glass Steagall Act of 1933 which acted as a firewall between banks and security firms. All of this legislation would make sense in the absence of the moral hazard of the central bank. The notorious 1998 Fed-organized bailout of Long Term Capital Management added significantly to the notion that politically connected institutions were "Too Big to Fail." As it stands, this liberalization has coincided with ever expanding bailouts by government and the Federal Reserve, culminating with the recent financial crisis. To be clear, deregulation did not cause the financial crisis, but it did increase its magnitude.

This book promotes a view of the free market that is incompatible with the facts. The authors' view of government intervention, at least until recently, was unabashedly naïve. It all seems to hearken back to Thorstein Veblen and John Kenneth Galbraith and

other institutionalist economists who substitute personal value judgments for economic theory.

A more proper view of the free market is provided by the fictional character Pollyanna. In contrast to the Pollyanna principle of an unwarranted overly optimistic personality, the actual character of Pollyanna learns at a very early age that bad things happen in this world. Bad things happen in a true free market too. Pollyanna worked hard to make the best of things and to overcome problems such as being an unwanted orphan and being crippled in an automobile accident. The free market also overcomes problems related to such things as information, ownership, transaction costs, credence, trickery and so much more, and does so in a cost effective manner. Attributing phishing for phools to the free market, rather than to government interventions, is the same bad behavior that the authors claim to combat: manipulation and deception.

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