

[SLICE OF MIT THEME MUSIC]

ANNOUNCER: You're listening to the *Slice of MIT* Podcast, a production of the MIT Alumni Association.

JOE This is the MIT Alumni Books Podcast, and I'm Joe McGonegal.

MCGONEGAL:

There are nearly 90,000 total governments in the United States, with a new one born every 18 hours. In *Inside Job, How Government Insiders Subvert the Public Interest*, published in March by Cambridge University Press. Mark Zupan, PhD, class of '87, suggests that the role of government in this country tends to exceed an efficient level.

Zupan, who studied economics at MIT, and his co-author of two other books on micro-economics, was named in 2016 as Alfred University's 14th president.

I reached Zupan by phone, and asked him why he chose to write this book now, and who its intended audience is.

MARK ZUPAN: It's intended for individuals with an interest in the political process, whether scholars or everyday citizens. If you wonder about why we don't get the outcomes we think we should, hopefully shed some light on why we do get the outcomes that we do.

MCGONEGAL: You talk about inside jobs in governments, in democracies, and autocracies. You've researched state and local governments, unions, corporations, non-profits, and I imagine there's some curating you had to do. There's a lot that you did not include, I imagine.

ZUPAN: It is amazing how long it takes to strengthen the arguments, and how to be most consistent with the data out there, but also how to make the most compelling arguments based on the data. And fundamentally, I'm a Course 14 graduate, so as an economist, we look at things from the perspective of markets. So when we analyze politics, we view it as a market where the good that's being bought and sold transfers well.

On the demand side, or interest groups that are vying for policy changes that will favorably impact them, wealth transfer-wise. And on the supply side are the rulers, the elected officials, the bureaucrats, that can produce those favorable wealth transfers.

And this model is largely grown up in the last 50 years, so during an era when democracy has

been on the rise. We've applied this model, and we see breakdowns at the expense of the public interest. Most frequently we've looked at the demand side. We've posited that it's an interest group on the demand side, whether it's one-percenters, producers, consumer interest groups, environmentalists, that have co-opted the system for their advantage at the expense of the broader public.

But what we haven't focused enough attention on, and this is a core point of the book, is that the supply side also matters. Those individuals have the means, the motive, and the opportunity, all three things that investigators look for when they're investigating a crime. And they also are human beings, like the individuals on the demand side. They're capable of very noble deeds, but also less than noble deeds. They are capable of co-opting the system for their advantage, and at the expense of the public interest.

And had we looked more broadly over time into something the book seeks to broaden our perspective on, before democracy was on the rise, we lived in the world, largely of autocracy, of monarchies. And there, we would have an entirely different perspective. Like Louis the 14th, who said "l'etat c'est moi," I am the state, we would view the rulers as the ones basically owning the state and all its citizens.

And this view that the supply side has co-opted the system, like the Bourbons did, would come very naturally. But it's a perspective that applies both in autocracies that still exist, that historical ones, but it's something that also could curse in democracies.

MCGONEGAL: Are you tempted to add a chapter in the next edition about draining the swamp? Just reading headlines every day right now, and we've certainly been hearing that rhetoric quite a bit. You have one reference to the current president in the book, and it's a minor one. How do you unpack the psychology of Donald J. Trump in the White House?

ZUPAN: The book was largely written before the advent of Trump, so there are more references to people like Marco Rubio and Hillary Clinton. That's when I was writing the book. The topic has certainly become more germane with Trump's advent. When you look at the annual surveys of American citizens done by the Pew Research Center, and citizens will get asked do you trust the government all of the time, most of the time, none of the time, and we're at an all time low right now in the percentage of citizens that trust the government.

Most of the time, or all of the time, it's 19% currently. The high point was in the 60s, when the survey was launched. In 1966, 77% of American citizens surveyed said we trust government

all the time, or most of the time. And I believe that disaffection with government, the suspicion, explains the rise both of Trump and the Republican Party, and Bernie Sanders on the Democratic side.

And what we're seeing now unfold with the Trump administration, it's a different thing once you're in the swamp, from once you're casting stones from outside the swamp. And the sudden our founders worried about Madison and the famous Essay Number 51 of The Federalist Papers, which said the first imperative we need to set up an effective government. A government that can control the citizenry. Because compared to anarchy, the founders knew that you needed effective government.

But then it goes on, the essay, saying as soon as we do that, then we have to figure out the checks and balances that will help us control the folks that are within government. And we're seeing those checks and balances, like in previous administrations, arguably even more nowadays, get tested. Currently they've endured, from both parties, attempts to test. Whether it's Franklin D. Roosevelt trying to stack the Supreme Court, to some of the current challenges with the Trump administration.

MCGONEGAL: You mentioned the income tax was not an original part of the framers vision for a central federal government in some way. What is it, 100 years old? Super majority votes that did a pretty good job for a while of stacking the deck against insiders.

Even recently, what was the abolishment of the filibuster rule, was a good example of insiders or one party, at least, trying to live things up in their favor.

ZUPAN: Correct. Even looking, let's say, my home state of New York. Public investments can do a lot of good, and the state of New York became the Empire State largely due to a public investment. The Erie Canal-- I used to live in Rochester, New York, and that city was basically put on the map by the Erie Canal.

New York was the fifth most populous state at the start of the United States. New York City was not the most populous city, but within a few years of the Erie Canal getting established, within two years the public investment is repaid, and it lowers transportation costs by 90%. Its impact still to this day is felt in New York, where in upstate New York, 80% of citizens live within 30 miles of the canal.

The railroads, when they start making advent, diminish the impact of the Erie Canal. New

York, though, maintains largely its advantage until the 40s, and then starts to fall off the rails and becomes less the Empire State when it becomes the high tax state, both state taxes, and added city taxes in the city of New York. So New York City.

MCGONEGAL: You talk about Robert Moses, some great city leaders in New York history, and even a mention to Boston's Michael Curley in there, rewriting and writing the rules to favor themselves, maintain their powers, but doing some good at the same time. Cyrus Vance, the district attorney, winning these huge awards against banks, settlements. And there's a double-edged sword every one of those, I suppose.

ZUPAN: They're the same human beings that populate the supply side as the individuals on the demand side. When you look at the steps taken by a Nelson Mandela, or an Ataturk in Turkey, or a Lee Kuan Yew, or even the Robert Moses does many positive things for the general interest. But there's still some residual effects of him pursuing his own individual goals that arguably came at the public expense. Losing, for example, the Dodgers and the Giants to the West Coast, because he wanted to force both teams into a common stadium in Flushing Meadows.

Or even his animus against public transportation. Every time I'm trying to get between New York City and LaGuardia, I mutter something under my breath against Robert Moses, because none of the buses can go. He designed the overpasses so they specifically were going to be low enough not to permit buses to travel underneath. So we live with the consequences of some of these objectives to this day.

MCGONEGAL: You even say, your family's own story, of your father leaving Yugoslavia behind under the autocratic rule of Marshal Tito, who in some versions of history was the greatest leader of Yugoslavia, ever. But not in your father's opinion.

ZUPAN: Individuals are multifaceted. They have-- Tito certainly held together the country, and kept certain animosities in check, that when he died the whole thing blew sky high. So you could argue the same thing with Hussein, that there were some positive things in terms of what he did in Iraq, by keeping factions. But then on the other side all the gassing, the exterminating political opponents, and Tito had many darker aspects along similar lines.

So it's not that you can paint everything black and white. But there were certainly many things about his reign that didn't serve the public interest.

MCGONEGAL: I heard a saying this week that for every equation you provide in a book, you cut your readership in half. Well you only provide us with one equation, and it's $P = GSI$, or the profit insider can acquire is equal to the gains times the slack the demand side allows, times the interest in the insiders have in acquiring the profit.

For the mathematicians among the listeners here, give us a radical example of a high P , or one of zero P .

ZUPAN: One of those is zero P , and it depends on how much slack policy makers have. That's the S on the right-hand side of the equation, how much interest they have in exploiting the slack. So even though there may not be checks and balances, if rulers are principled, they may opt not to exercise that slack pursuing their interest at the expense of the broader public. And G is how much there is to gain, and that depends on the size of government.

So it can conceivably profit, and there was a ruler, Croesus, several hundred years ago, who argued that I should make the economy as profitable as possible, and then figure out a way to scoop out the rents through the taxes I can impose on the system for the benefit of those in power.

So there are times where growing the economy may be aligned with the profit rulers can take. In general their costs, what economists call leaky buckets, after Arthur Okun, who is was chief economic advisor under Lyndon Johnson, that creates certain frictions every time you try to grow the economy, but then scoop out the rents.

And one of the other fundamental conclusions of the book you, get less P in democracies. That our founders did have it right. That if you're going to bet when it comes to measuring public sector integrity, you want to put your bet on democracy. On average democracies have higher public integrity, public sector integrity scores, as measured by Transparency International.

There are a few notable exceptions, like Singapore, and Botswana, and the United Arab Emirates, but those are few and far between. On the downside, this Transparency International zero to 100 score where zero is perfectly corrupt, 100 is perfectly clean, the average democracy still falls below the midpoint of that scale. And over a quarter of the world's present democracies have a public sector integrity score that's below the autocratic average around the world.

So government by the people doesn't ensure government for the people. Francis Fukuyama, who argued in a recent book, *The End of History*, with the rise of democracy after the fall of the Berlin Wall, that we've reached a socioeconomic terminus. And he's since scaled back that argument.

My book, consistent with his walking back his argument, will say democracy is not enough. Our work remains unfinished, and we still have to keep thinking about these checks and balances that our founders worried about, and what further can we do. And that's the closing chapter, that limits the amount of profit that supply-siders can extract.

MCGONEGAL: And slack has diminished in the last 100 years, 50 years, would you say in many democracies?

ZUPAN: Yes. When you look at least over the last 20 years that Transparency International has been doing these annual evaluations of countries around the globe. So there are now more benchmarking mechanisms that help diminish slack, citizen mobility, and also arguably the productivity of citizenry, if the more productive we become, the higher the opportunity cost from exercising slack in a nefarious way on the supply side.

But still, what got me into the research was looking at a well-established democracy, the United States, and trying to explain how our senators voted. And this was with the mentor, Joe Kalt, who, when he was a faculty member at Harvard University, and I was an undergraduate there before going to MIT, we looked at how senators voted on strip mining to test the economic model. And we were hoping to see to what extent could you relate strip mining voting to pocketbook interests in a senator state. And one of the striking things was how little could be explained by economic interests, and how much more important were non-pecuniary interests.

Senators ideological goals-- we found that it was amazing to what extent we could explain senators coal strip mining votes based on their votes on abortion legislation. Senators had vastly different ideologies, whether you were Ted Kennedy or Barry Goldwater, but those interests seemed to matter.

And then to see, well maybe on an individual issue, there may be a lot of slack, like coal strip mining. But maybe there's less slack when we elect senators every six years. But even when we looked at the market that meets every six years, there was still a fair bit of slack we were able to determine existed, even in a well-established democracy.

And whether it's ideological goals, or pecuniary goals, prior to the passage of the STOCK Act a few years ago, there was a study done of senators and congressional representatives market portfolios. And what these researchers found is the average senator, Republican or Democrat, their market portfolio grew by 12 percentage points more than the market over that period per year.

The average congressional rep was six percentage points higher, so either we've elected people who are a lot wiser than Warren Buffett when it comes time to picking winners, or there's something about being in power that also accrues financial benefits according to the studies that were done then.

MCGONEGAL: Speaking of votes, you also discussed the B-1 bomber as an example of the one that has parts in 48 states.

ZUPAN: When I teach economics to students, public goods is one of the arguments we give for government intervention. And from a purely economic perspective, that arguments warranted. But what the book argues is you also have to worry about the politics, and the interests that crop up when you have legislation involving public goods like national defense.

And from an economic perspective, we can argue that those public goods will under-provided, but from a political perspective we can argue that the exact opposite will happen. That when it comes to a B-1 bomber, we have to worry about individuals on the supply side of those public goods, the people that produce the bomber, the individuals the benefit from those public goods, and how concentrated are those interests relative to the average taxpayer. And Rockwell International, who produced the B-1 bomber, apparently had a photograph of the bomber with a huge map of the United States on the same wall, and there was a thread connecting each part to the B-1 bomber to the congressional district in the state where the part came from, and that this single weapon system covered 48 different states and over 400 congressional districts.

And Air Force generals have been quoted as saying, nowadays when you see a weapon system like that, it's not actually an airplane, it's a collection of spare parts flying in tight formation. And there's a term in the industry called a double hitter, when you can locate the production of a part, both within a state and a congressional district where the representative sits on the relevant Armed Services Committee.

MCGONEGAL: What else is left to right on this topic? What's your next research project?

ZUPAN: I'd never heard that quote before, about cutting your readership than half for every equation you have. It's light on an equation for one equation, two tables, one figure. So hopefully it makes the job easier on the reader. We'll reflect on it for a couple years, but issues of how large the P is and how you can relate it to the profit supply-siders extract, and the various factors on the right hand side of the equation, the interplay between them.

Looking at issues, too, typically political scientists just look at the top rung of political power. And we can assume, for example, that if there is a lot of turnover, it seems to be competitive. So maybe there's not much slack in the system, but the book points out we've got to look below the top rung, and what else, who else, remains in power.

A classic example is Italy, where the top person has turned over 44 times since World War 2. It looks very competitive, and yet Italy, on most measures, comes up as close to being economically un-free. And because they are below the top rung. a lot of the bureaucracies remained in place that has inhibited the growth of Italy. The growth has been negative over the last decade when you look at the annual average.

Or a case like Mexico, where there's a tradition of every six years the top person turns over, and we've got to look below the top rung at what remains encrusted on the supply side. And then fundamentally looking at what other checks and balances do we have. Can we avail ourselves the Swiss debt break rule that significantly limited the growth of government in that country, and what can we learn in the United States and other democracies?

And then how can we promote greater transparency, applaud Transparency International for the work they've done. Steve Ballmer, just a few weeks ago, one of his newer projects is to make government spending more transparent. He was struck at how little we know about tracking our dollars, and to helping to disabuse ourselves of the notion of what actually happens within government.

We have a positive outlook and yet we need to be a little more guarded. Deirdre McCloskey, an economist a University of Illinois, makes this very telling point that most of us around a dinner table, or at cocktail party, would agree that we should really focus government spending on those individuals that are less well off in society. And so she runs the following thought experiment.

Let's say we took a quarter of what the federal government takes every year, which is about a trillion dollars, and we decided to steer adult individuals below the poverty line. What we would end up with is the average family of four below the poverty line making about \$110,000 a year. And her fundamental point is, the fact that nothing close to that happens, should make us wary about how either leaky the bucket is, or what is actually going on in terms of whose interests are being served when we watch a democracy like ours operate, or India, or when we look within an autocracy, which we tend to be more suspicious of.

MCGONEGAL: You argue the special interests have an influence disproportionate to the economic stake they have in an issue.

ZUPAN: We have colleagues, primarily at University of Chicago, that will argue that we'll end up with an efficient outcome in politics because of competition. And so we shouldn't be as wary of outcomes. And a classic counterexample is sugar import quotas, where we can show, and it depends on the year the study is done, but the average family in the United States now loses about \$50 a year because sugar prices are higher due to the restrictions placed on the imports of sugar from countries like Haiti and the Philippines. Who benefits from those? There are certain states in the US, like Hawaii, like Louisiana, that can grow sugar cane, and the rise of sugar prices redounds to their benefit.

Their gains, though, collectively, the typical study shows are between \$500 million dollars, and a billion dollars less than what we consumers collectively lose each year due to sugar import quotas. But for \$50, you and I, Joe, don't have much incentive to show up and lobby our congressional representative or a senator to get rid of the sugar import quotas. The clout that producers of sugar in Louisiana and Hawaii can exert, and how much more concentrated their interests-- they're are much more motivated to show up in Washington to make sure these quotas remain in place.

It's a symbiotic effect, so it's the demand side interest in the case of sugar import quotas. It's the producers, but they're locked up with representatives from their states that also have a vested interest in keeping these quotas in place. And then as the saying goes, politics makes strange bedfellows. So once the price of sugar goes up, you see this alliance emerge with companies and other states that produce substitutes for sugar, like high fructose corn syrup, and Archer Daniels Midland arguing with their representatives in Illinois that we should keep the sugar import quotas in place.

So it's this odd alliance. And in democracies we often see the symbiotic inter-relationship between demand and supply side special interests. It's like the double helix and DNA, the four nucleotide bases, and cytosine always bonds with guanine, adenine with thymine, so when you get a screw-up in the code on one side of the helix, there's likely to be a screw up on the other side that further promotes the likelihood of over-replication, or a cancer, that operates to the detriment of the overall organism, in this case, the body politic.

MCGONEGAL: What else are you reading right now?

ZUPAN: Matthew Ridley. I'm a big fan of his. He's got this wonderful new book called *The Evolution of Everything*, and how many of our cultures or mechanisms don't arise through top-down approaches, but rise up organically because things work. And we'll even look at why a place like Rochester, New York is so successful in optics. Or another place, like Detroit, with the strength, historically, in the automotive field. And it will argue it's not so much that universities in the area, but it's the entrepreneurs, the Bausch and Loms, the George Eastmans, in the case of optics that made Rochester so successful in optics. And that redounded to the benefit of universities, like University of Rochester and RIT.

So that's one. And then Angela Duckworth has this wonderful book out called *Grit*. And she recounts at the beginning of the book how, when she was growing up, her dad used to tell her, consistently, you're no genius. And then a couple of years ago she won the MacArthur Genius Grant. The fundamental thesis is that talent is overrated. That what really matters is identifying your passion, and then developing the confidence to pursue it. And how somebody like Darwin, who was so influential in science, would help people.

I've got a horrible memory. I can't remember names. It takes me so long to get concepts, but what he would say, I love biology, and that love helped him connect the dots and forever beneficially impact the way we view the world.

MCGONEGAL: Alumni, listening, who are not familiar with Alfred University, tell them something they might not know about it.

ZUPAN: It's the second oldest of proud progressive heritage, started in 1836. Second place in the country to admit women. The first one to open up the full course of study. Oberlin beat us to the punch, but if you were a woman you had to study home economics, and you couldn't give public speeches until 40 years after the other institution's founding.

So we're very much more open to diversity. One of the first to admit African-Americans, and Native Americans. We're one of the top schools of art and design, and the top ceramic engineering program in the country. So learning a lot more while I wasn't an engineer at MIT. Learning a lot about Snell's law, and refraction indices, and because of the strength of the glass science and engineering components.

And we have more alums of places like Corning than any other university because of proximity, and because of the strength and ceramics and glass. And we're doing a survey with them right now, and we anticipate the average number of patents per capita across the 300 alums will come in pretty close to three patents per capita. So a very tinkering, roll up your sleeves university. And I'm very proud to be affiliated with it.

MCGONEGAL: Mark Zupan is the author of *Inside Job, How Government Insiders Subvert the Public Interest*, now available at your favorite local bookstore and online. Mark, thanks for your time.

ZUPAN: Very good.

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