

## Ideas and the Rules of Politics

Coaches abused basketball again today.

—*The Washington Post*, March 8, 1982

It was March 7, 1982, and the cold drizzle falling on Greensboro, North Carolina, was no match for college basketball fever. The hottest ticket in the country was the Atlantic Coast Conference (ACC) men's basketball championship, with nationally ranked number-one North Carolina taking on number-three Virginia, in a rematch of their two-game split of the regular season. This game had it all. Both teams had come in with only two losses all year. A total of five future National Basketball Association (NBA) players, three of them future all-stars, would take the court, and the greatest basketball player of all time, Michael Jordan, was in his debut season for Carolina.<sup>1</sup> A rare national television audience was about to tune in. And inside the Greensboro Coliseum, 16,034 screaming fans felt lucky just to be there when the game tipped off. The anticipation was palpable. The excitement could not have been greater.

But, by the end of the game, the fans were booing, the players on both sides were disappointed, and both coaches were taking flack for thinking too much and playing too little. With seven minutes and thirty-three seconds left to play and his team ahead by one point, North Carolina's coach, the legendary Dean Smith, told his team to play keep-away. With Virginia's

coach Terry Holland keeping his squad close to the basket in a zone defense, the North Carolina players were free to dribble and pass and stall and do everything but shoot. As the game clock ticked away, and a glorious game turned foul, the chorus of boos rose in crescendo beyond the rafters of the Greensboro Coliseum. One thoughtful sportswriter summed up the despair: “Imagine the final 12 minutes of Hamlet if the cast started reciting the Congressional Record. Or Hemingway writing the last chapters of his classics in pig Latin. Coaches abused basketball again today, ruined what could have been a game for the ages by thinking.”<sup>2</sup>

The ACC championship wasn’t the only “slowdown” game that year where fans booed; it was just the biggest. Average scoring nationwide had been declining for seven straight years and had reached its lowest point in more than three decades. The various conference leagues were becoming increasingly worried about the quality of play and a possibly shrinking fan base. The National Collegiate Athletic Association (NCAA) began looking into the rules of the game and how “stall-ball” was not only possible but in fact a winning strategy too tempting for coaches to pass up. Desperate for a good idea, they turned a figurative eye to Danny Biasone, an Italian immigrant who had settled in Syracuse, New York, and in 1954 invented the twenty-four-second shot clock.

Danny Biasone owned a bowling alley and had built up enough of a fortune to start a professional basketball team. In 1946, his Syracuse Nationals began to play in what would soon become the National Basketball Association. In 1950 the NBA had its own “stall-ball” fiasco, when the Fort Wayne Pistons beat the Minneapolis Lakers by the dubious score of 19–18. A shrewd businessman, Danny Biasone protected his investment by inventing the shot clock. Like many revolutionary ideas, his was simple. He divided the 2,880 seconds of a forty-eight-minute game by the average number of shots per game, which was 120. He arrived at an average of one shot taken every twenty-four seconds. By the new rule, if the team on offense failed to shoot the ball within twenty-four seconds of taking possession, the whistle would blow, and the other team would get the ball. When the NBA introduced Biasone’s rule in 1954, the number of shot attempts and average scoring increased by 15 percent—in one year!<sup>3</sup> The idea rescued pro basketball and ushered in its modern era.

Chances are the NCAA brass didn’t actually consult Biasone in 1982. It didn’t have to. By that time the NBA was a very successful sports enterprise, and the shot clock for college basketball was on everyone’s mind. But the

idea hadn't gone anywhere yet (except for one minor college league, the Sun Belt Conference, which had recently begun using a forty-five-second shot clock). In fact, basketball coaches around the country hated the idea. Just twenty days after the Carolina–Virginia letdown, the NCAA rules committee held a survey, and coaches voted against a thirty-second shot clock by a whopping 343 to 53. Even so, the NCAA rules committee pressed on, saying the shot clock was necessary “as a result of a decrease in scoring, what many people thought was an excessive use of zone defenses and because some teams were holding the ball a little too long . . .”<sup>4</sup> After a few years, as different leagues experimented with different rules, the NCAA eventually settled on a thirty-five-second shot clock. The days of stall-ball and angry fans were over. College basketball became immensely popular—and profitable. By 1989, CBS television paid \$1 billion for the right to broadcast the postseason tournament, and by 1999 the network upped the ante to \$6 billion, making college basketball one of the biggest revenue sports in U.S. history.<sup>5</sup>

### The Rules of Politics

You may wonder why a book about politics begins with a story about basketball. But a close look reveals that there is more than basketball at play in the shot clock story. Sports are like controlled experiments in human behavior; they have much to tell us about the way people interact and why. The coaches and players are highly motivated, and how they play depends a lot on the rules of the game. When a new idea changes the rules of sports, players and coaches have new and different incentives. In basketball, a shot clock increases the costs of holding the ball for too long, while a three-point line increases the benefits of long-range shooting. When the rules of sports change, we get an unobstructed view into how incentives shape people's strategies and tactics, which largely determine how the game turns out.

The rules of politics work the same way. Voters, politicians, corporations, and all other political actors are driven largely by their incentives in politics, which in turn are determined by the rules of the political game at a given time and place. Politicians vote for government spending in ways that will get them more votes. Interest groups prefer to work with policymakers on specialized issues that don't attract negative publicity. And voter turnout is low on rainy days. As in basketball, the rules of politics determine how the game of social life is played. And, when the rules of politics change, this change gives political players new incentives. So the shot clock story is about more

than basketball. It's an allegory for our story of political change, a microcosm of our broader tale, starring *madmen*, *intellectuals*, and *academic scribblers*.

These characters come to us from the pens of two prominent twentieth-century economists, John Maynard Keynes and Friedrich August von Hayek. Both articulated theories by which new ideas, sooner or later, sway public opinion and overwhelm status quo interests. In Keynes's landmark 1936 book, *The General Theory of Employment, Interest, and Money*, he said that "madmen in authority" unwittingly heed the counsel of "academic scribblers." By "madmen in authority," Keynes referred to policymakers—those people whose hands grip the policy levers and can change the rules of the game. In the shot clock story, they are the NCAA rules committee. In politics, they would be politicians, bureaucrats, and other decisionmakers in public policy. As for Keynes's "academic scribblers," they are philosophers, economists, and other thinkers whose main job is to produce ideas. In the book's final sentence, Keynes said it is ideas, not vested interests, that are ultimately "dangerous for good or evil."<sup>6</sup> Keynes said the academic scribblers win. They, not the vested interests who currently benefit from the status quo, ultimately control the madmen in authority.

Keynes's perspective is top down: The ideas of academic scribblers might originate in ivory towers, but they become concrete and influential as they work their way down to shape what broader circles of people believe. Madmen in authority might speak to the masses in everyday language, but, whether they know it or not, the depth of their message was penned by some bygone academic.

What about the *intellectuals* in our tale? For this we turn to Keynes's great adversary, Hayek, whose approach to ideas was similarly top down. But Hayek added a middle layer between the madmen and scribblers. In a 1949 essay, "The Intellectuals and Socialism," he argued that opinion makers who trade in ideas—whom he called "intellectuals"—select the academic ideas they like, edit and repackage them, then disperse these ideas into society. The problem, according to Hayek, is that intellectuals hold biased views. In Europe and the United States following World War II, where Hayek lived and worked, the intellectuals favored socialism, and the public discussion promoted by the press strongly favored this perspective. In other times and places, if intellectuals hold biased views toward some other set of ideas, we should expect the public discussion to tilt in that direction. Hayek argued that the intellectual class acts like a sieve between academic scribblers who

generate ideas and the absorption of these ideas into the body of public attitudes, beliefs, and opinions, where madmen in authority make their appeal.

In short, Keynes and Hayek gave us a top-down process for thinking about the rules of the game and how they change. In basketball or public affairs, change usually is a tale of madmen, intellectuals, and academic scribblers, offering different ideas, changing the rules of the game, and giving people new incentives. If the NCAA rules committee plays the part of madmen in the shot clock story, with their hands on the levers of policy ready to change the rules of the game as needed, then the sports writers, with their allusions to Hamlet and Hemingway, are the intellectuals. And Danny Biasone, with his back-of-the-envelope arithmetic, plays the academic scribbler.

Coaches and players aren't chessboard pawns, of course. Neither are voters. Rather, they are individuals with their own goals, aspirations, talents, and limitations. And they have their own ideas about how the world should work—ideas that are shaped by life experiences, culture, age, and other influences that seem rather bottom up compared to the scribbles of some bygone academic. College coaches resisted the top-down shot clock idea in part because it was foreign to their long-held beliefs. College hoops, they believed, had done fine without a shot clock for eighty years. There was no time limit on possessions in Dr. James Naismith's original thirteen rules of the game. This shot clock idea—it just wasn't *right*.

So, apparently, the status quo can be a formidable foe. It consists of established, vested interests that benefit from the status quo rules. And it also has people's long-held beliefs on its side, which presents us with a challenge. We have Keynes and Hayek telling us that ideas eventually trump interests and change the world. Yet we look around and see that a lot of things do not seem to be changing, or seem to resist changing, even when we can imagine a better solution. So which is it? Do ideas really matter? Do they change the world? If so, how? And when?

### Changing the Rules of Politics:

#### How and When Ideas Overcome Vested Interests

What major rule change or reform by the U.S. government has been most beneficial during your lifetime? Maybe you'll think of the Civil Rights Act, or the Endangered Species Act, or the Family Medical Leave Act. If you focus more on foreign policy, you might nominate the Shanghai Communiqué that

came out of Nixon's trip to China, or the Strategic Arms Reduction Treaty with Soviet Russia to phase out nuclear missiles. If economic growth is your priority, your top pick might be the deregulation of the airline and trucking industries in the 1970s or the auction of radio frequency spectrum in the 1990s that ushered in the age of mobile communications.

Now flip the question over. What is the most wasteful and unjust policy in memory that was carried out by the federal government? If you or a loved one has ever desperately needed an organ transplant, you might nominate the National Organ Transplant Act of 1984, which created the shortages, waiting, and dying that we now have. Or perhaps your house has been taken by eminent domain, in which case you might point out that urban renewal programs destroyed the neighborhoods of millions of people in the twentieth century, especially African Americans and the poor among us.<sup>7</sup> Or perhaps you're a frequent flyer, in which case you might nominate the Transportation Security Administration's (TSA's) enhanced pat-downs and full-body imaging. If a family member is one of the 4 million people in jail or on parole for drug possession, your thoughts might drift to the war on drugs, which turned forty years old in 2011. And so on.

Quite a mixed bag, this government business. The fate of the human condition depends on how ordinary people respond to the rules of the game. And the rules of the game, in turn, depend largely on how governments respond to ideas circulating in society. The process of political rules adapting to a changing world—what we call political change—creates the new incentives that generate outcomes that we hope will improve the human condition and yet sometimes make it worse. Yet, for all its importance, political change doesn't easily surmount status quo forces.

Understanding political change is both simple and complex. It is simple because we need only focus on incentives to begin explaining the political world, yet complex because changing incentives is not like flipping a light switch. Incentives are embedded in institutions—the many rules of the game that make up politics, law, religion, art, and all other aspects of a society. Like athletes who get better through weight training, which tears muscle tissue so that it may grow back stronger, changing political rules requires tearing a people's institutional fabric. It is only natural to expect resistance to that, even if the result is beneficial.

And, like all human creations, a society's institutional fabric evolves. It is the product of a particular people in a given time and place in history. And it is in this context that new ideas are accepted or rejected. Consider,

for example, the experiences of the English before and after the Industrial Revolution, of the Germans in the decades prior to World War II compared to the decades following it, of U.S. citizens before and after the terror attacks of 2001, or of the Chinese under Mao compared to the same people after decades of historic economic growth. In all these cases and more, the circumstances of time and place changed dramatically, creating a climate receptive to different ideas.

With this insight, we get a better view of how ideas matter and what conditions are needed for ideas to trump interests. Both Keynes and Hayek believed that top-down ideas are the driving force in political change, despite the opposition of vested interests or the current beliefs of the masses. An earlier giant in economic thought, John Stuart Mill (1806–1873), saw things differently. Ideas are of no consequence by themselves, Mill argued, unless “outward circumstances conspire with them.”<sup>8</sup> According to Mill, ideas matter—in fact, they matter a lot—but they alone do not explain why change happens. It is not inevitable that ideas eventually sway public opinion and overwhelm vested interests. Something must happen to make the ideas relevant at a given time and in a given place.

In politics as in sports, change comes when conditions make it possible for new ideas to trump *both* vested interests and long-held beliefs. And *crisis* is the word that most easily evokes Mill’s “outward circumstances.” In college basketball, more (and more prominent) coaches gradually succumbed to the temptation to play stall-ball, and as this game-killing practice lost its stigma, a crisis emerged. After thirty years in the waiting, the time had come for Danny Biasone’s big idea.

If you listen to politicians and pundits enough, crises both real and imagined will become exceedingly common. That’s because madmen in authority are expected to *act* in response to a crisis, and the bigger the crisis the bigger the change expected—or allowed. During the Great Depression, unusually severe economic conditions created a political environment that was much more receptive to starting new government programs, including programs that likely would not have garnered equivalent support in earlier years. More recently, as President Barack Obama took office in the wake of the subprime and financial crises, his chief of staff offered the following advice: “Never let a serious crisis go to waste. What I mean by that is it’s an opportunity to do things you couldn’t do before.”<sup>9</sup> Market advocates are tempted to draw the same connection between crisis and change. Milton Friedman, for example, said that truly major reform always requires some form of crisis.

But certainly Mill's "outward circumstances" can emerge without a crisis. Sometimes reforms evolve slowly in small increments until they snowball into major reform, as did the regulatory changes that helped create the housing boom in the first place. Sometimes simply unpleasant or inefficient conditions can move toward Mill's tipping point. For example, during the deregulation of the commercial airline industry in the 1970s, inflation and economic malaise certainly meant there was interest in reforming inefficient regulations. But these inefficiencies were nothing new; they had been brewing for decades. And even though the established players (Keynes's vested interests) in the industry strongly opposed reform, a major episode of deregulation still ultimately happened.

Nor is crisis *sufficient* for political change, as any advocate of budget reform or nationalized health care in the United States can attest. On both of these issues—health care and fiscal policy—politicians and pundits have been screaming "crisis" for decades. Yet neither issue has experienced a major reform that has stuck (in the sense of not being reversed by courts or future legislation). So although "crisis" most easily evokes Mill's "outward circumstances," we think it's neither necessary nor sufficient to effectuate major political change.

In all cases of political change—those that expand government and those that reduce it, those that spring from crisis and those that slowly emerge from bad conditions—an opportunity to do something big emerges. Certain people see those opportunities and act on them. A scribbler pens just the right idea. An intellectual spins an issue for public consumption. And then it becomes in the interests of the madmen in authority to do something about it—to change the rules of the game. In this book, we call all those people political entrepreneurs. Building on Mill, Keynes, and Hayek, we argue that change happens when it becomes in the interest of the madmen in authority to adopt new ideas and oppose established interests. As Mill explained it in 1845, "When the right circumstances and the right ideas meet, the effect is seldom slow in manifesting itself."<sup>10</sup>

### Preview of the Story

Changing the rules of the game isn't easy, in basketball or in politics. But when bad rules give people incentives to do bad things, political change is needed to improve outcomes. In every chapter of this book we focus on three questions that are the key to understanding political change:



1. Why do democracies generate policies that are wasteful and unjust?
2. Why do failed policies persist over long periods, even when they are known to be socially wasteful and even when better alternatives exist?
3. Why do some wasteful policies get repealed (for example, airline rate and route regulation) while others endure (such as sugar subsidies and tariffs)?

The first question has a lot packed into it. To come up with an answer, you need sound ways of thinking about justice, as well as a standard for thinking about waste. As if that weren't enough, answering this question also requires a theory of how democracy works and why it often seems to fail. To get our arms around these big questions, we spend Chapters 2, 3, and 4 introducing you to some of the biggest thinkers in politics and economics that history has to offer.

For starters, Chapter 2 gets some advice from people who would know about justice: philosophers. Why visit with our philosopher friends? Think back again to our question about the most unjust government policy you can remember. In your answer, did you consider the purpose of government? Should its ultimate purpose be to promote freedom, or virtue, or justice, or some other good? Even more, what is a good society? How should we properly separate private and public life? What is the best form of government? Is it one with a strong executive or even a monarch, one with most powers delegated to a democratic assembly, one with a clear and respected division of powers, or some other arrangement? These are the timeless questions that point to where a people's political hearts lie and what they think the ideal political world would (or should) look like. Without these, we can hardly even pose the first question, much less develop a good answer.

To navigate the philosophical maze between us and our three motivating questions, Chapter 2 tells the story of history's greatest political philosophers and how their ideas do battle with one another. We'll hear their arguments and controversies, and we'll spice it with the details of their lives and how their life circumstances influenced their academic scribbles. We'll cover a lot of ground in a few pages, from the ancient Greeks to Renaissance philosophers and the minds of the Scottish Enlightenment, and from the American Founders to the Progressives. The chapter is like a drive-by tour ("please don't feed the philosophers!"), and we won't tarry. Our goal is simply to harvest from these ideas their implications for identifying and implementing good rules in society.

The second element of our leading question involves waste, otherwise known to economists as “inefficiency.” In Chapter 3, we tell the story of modern economic theory joining the battle of political ideas by showing how government can (at least in theory) promote more efficient outcomes. As it turns out, modern economic theory is an outgrowth of the philosophers we will meet in Chapter 2. Almost chronologically, Chapter 3 thus picks up where two millennia of political philosophy leave off, to tell the story of neo-classical welfare economics. This is academic stuff, but it’s also a big part of the real political world, because much of what government does is justified by economic theory. For example, the idea from welfare economics is that markets are good at most things, but, for a class of very important things, markets don’t work well. So governments must intervene to correct market failure.

But economists also compete in the marketplace of ideas. Just as neoclassical welfare economists were finalizing the details of their theory in the 1950s, a new brand of thinking started to sprout, a brand of thinking known as public choice theory. In Chapter 4, we introduce this new theory—an *economic* theory—of politics. The basic idea of public choice is that economists shouldn’t have one set of theories for a person making a commercial decision and a separate set of theories for that same person making a political decision. Economists working in the public choice tradition argue that if we’re going to look at market failure, then it makes sense to see if there is government failure, too. With this perspective in mind, it becomes clear why democracies so often generate inefficient policies and why they allow them to persist.

In short, Chapters 2 through 4 provide a brief tour of political and economic thought, starting with ways to think about what is just, unjust, and wasteful in a society; moving on to consider measures of wastefulness in the market and how government might address it; then proceeding to review why government policies themselves may be wasteful. We then use this foundation to answer our first two questions: why democracies generate bad policies and why they so often persist.

The problem is that traditional public choice leaves us hanging on the question of why *some* policies get repealed and *others* do not. To that end, Chapter 5 lays out a framework for thinking about political change. Our framework matches the elements of political change (ideas, rules, and incentives) with the characters who make it happen (madmen, intellectuals, and academic scribblers), paying close attention to the circumstances at a particular time and place. In brief, the framework is the sum of four basic points about how and when political change happens:

1. Incentives determine people's behavior.
2. Institutions frame incentives.
3. Ideas influence institutions when "outward circumstances" become favorable.
4. Entrepreneurs make change happen.

In short, political change happens when entrepreneurs notice loose spots in the structure of ideas, institutions, and incentives and then find ways of implementing these new ideas into society's shared institutions. The entrepreneurs in political change may be philosophers, opinion makers, political leaders, or other types of influencers. What they have in common is an interest in better ideas—ones that improve the human condition—and having them become part of society's institutions, which in turn has an impact on incentives and outcomes.

To illustrate our thesis with applications to the real world, Chapter 6 details four case studies about significant episodes of political change, examining how rules were revised and how outcomes changed as a result. The welfare reform of the 1990s, for example, was said to be launched in response to the crisis of welfare policy in the country. This reform was preceded by significant academic research as well as other reform efforts, and we review the history of this experience. In contrast, the deregulation of airlines in the 1970s was not directly tied to an immediate crisis but instead the result of a confluence of factors. We will give the experience careful attention. Similarly, telecommunications reform in the 1990s helped spur the mobile communications revolution by making more spectrum available, but it was not the product of any crisis in the industry or its regulation. Rather, a budget crisis gave the critical push to a political change that had been building for years, a story we recount in detail.

All three of these examples—welfare reform, airline deregulation, and the reform of spectrum policy—produced economic gains. But the results of political change are not always positive. A prominent example is the housing bubble that emerged from 1997 to 2006, which was prompted in part by regulatory policies that had incrementally altered the incentives of people in housing and lending markets. As our fourth and final case study, the housing crisis shows the great negative consequences that can emerge when unproductive political entrepreneurship becomes systemic. We close Chapter 6 with a discussion of the changing policies related to this market and their serious consequences.

Finally, Chapter 7 makes use of the framework developed here to examine the role of political entrepreneurs—those who see and seize opportunities to effectuate political change. While the end result may be tremendous social benefits or massive waste, the act of political entrepreneurship always involves someone seeing an opportunity within the circumstances at hand and then acting. We look briefly at political entrepreneurs who have tried to change the world, and we derive a handful of principles that most successful political entrepreneurs are likely to have in common.

Over the course of these chapters, we dig deep to lay a foundation for thinking about good rules, and then we show how incentives matter in politics and how ideas, interests, and entrepreneurship effectuate political change over time.