The Darwin Economy: Liberty, Competition, and the Common Good by Robert H. Frank. Princeton, N.J.: Princeton University Press. 2011. Hardcover: ISBN-10: 0691153191, Softcover: ISBN-13: 978-0691153193, $26.95. 256 pages.

This is an important book which brings together three decades of research and writing by the author to better understand the nature of our modern economy and to provide policy recommendations. First, according to the author, there is a misconception about the nature of competition and Adam Smith's introduction of the 'invisible hand.' The author acknowledges that Smith's contribution was a monumental achievement and it does help explain some behavior. However, Charles Darwin's contribution to understanding real world competition was the recognition that the self-interest of an individual could be detrimental to the long run survival of a group to which the individual belongs. Second, relative position matters—the world generally grades on a curve. This is akin to Veblen's concept of 'pecuniary emulation.' It also leads to waste in the private sector which may in fact exceed the waste many conservative critics see in government spending. Finally, many markets in our economy can be characterized as 'winner-take-all' markets. A few lucky, and perhaps very talented, individuals are able to command incomes that are far larger than the average in the industry. Though sports and entertainment are usually singled out, many more markets in our economy can also be characterized as 'winner-take-all.' The market for university professors is one such example. These are all concepts which the author developed in earlier works and they are utilized in the present book to convince the reader that there are policy options available that can be agreed upon among individuals who have very different world views. This is not an easy task. The author seeks to engage those with libertarian views; however, his praise for Adam Smith and Ronald Coase may irk some on the political left.

Given the author's characterization of the key features of our economy, he proposes a progressive consumption tax. While many on the political right view any taxation as theft, the author argues that such taxation of an activity harmful to society will benefit all. The author uses the work of Ronald Coase on externalities and transactions costs to challenge libertarians on the role of government. The key insight of Coase, according to the author, is the recognition that rather than instances of harm being viewed as perpetrator and victim, such externalities are purely reciprocal phenomena. In such cases, Coase stated, individuals would have an incentive to implement an economically efficient solution to the problem, irrespective of who the legal framework would hold responsible. However, the conclusion that many libertarians come to is that government is not needed to impose a solution. This is of course only true if it is feasible for the two parties to negotiate, which is often not the case.

The author discusses several enlightening examples of the application of Coase's analysis. One example is the airline industry. Prior to the deregulation of the industry, airlines did not overbook to a great extent but if you had purchased a ticket, and all of the seats had been taken when you arrived, then you would have to wait for the next flight. Today, airlines regularly overbook flights and when there are not enough seats, they must offer a cash incentive for people to give up their seats. Is this policy unfair to low-income people? When the Federal Aviation Administration (FAA) proposed this rule, Ralph Nader objected on the grounds that it was unfair and that first come, first served was the better policy. But a libertarian could also oppose the FAA's ruling because they do not believe that the FAA should exist in the first place and the market should find a solution. However, the author asks, would the airlines have found this solution on their own and would both firms survive under the assumptions of free market competition in a world where one airline implemented first come, first served and the other overbooked and paid compensation? The point is that after deregulation of the airlines, there was nothing to prevent firms from adopting a compensation policy, but they did not do so until it was imposed by the FAA.

One of the causes of political paralysis today is that politicians on the political right tend to over-estimate the average person's chances of success in a free enterprise economy because they have a narrow view of competition and tend to think absolute status is what matters most. Those on the left tend to underestimate the chances of an individual's economic success and view competition as mostly harmful because relative status dominates in our economy. The author attempts to bridge this gulf between left and right and should be commended for this effort. However, I think I can safely predict two types of people who will not like this book. The first would be libertarian evangels who reject any role for government and believe that an anarchist utopia is the best of all possible worlds. The second would be committed socialists who believe that the market system, prices, and private property should be abolished. If you are not in one of these two groups, you will benefit from reading this book.

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