

OTHER THINGS EQUAL

Economic Tourism

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I've been doing a lot of moving from one economy to another recently. I am, for a year, in Holland at Erasmus University of Rotterdam. I've made a few lightning visits back to the United States. (I have to stay out of the country for 35 days in my tax year to get a \$70,000 off-the-top reduction in taxable income: we professors on visiting appointments in other countries join in saying, God bless the oil companies.) I just spent a month in Australia and New Zealand. And I've done some short trips to England and France. It's hard duty, but someone has to do it. I'm proud to take up the onerous responsibility of buying fashionable hats in Paris. (As I came out of the hat store with Nancy Folbre, an elegant Frenchman said, "Une belle chapeau, Madame!" I could have kissed him.)

The point: When you travel from one economy to another your attention is drawn to economic peculiarities. If we could use that sense of wonder in economics, trying to see ourselves as "tourists" even in our own neighborhood, the field would make rapid progress.

The best example I know of the point is the life of Armen Alchian. On my way out to Australia I stopped at UCLA to see some friends, among them Armen, the heart of the (former) distinctiveness of the Department of Economics there. ("Former" because UCLA, like almost every other department in the country, has remade itself with some difficulty into a pale imitation of MIT.) Armen was, as always, the soul of courtesy. He was not the slightest bit put off by my recent change, and we had a nice two hours in his office and over coffee at the Business School, talking about economics.

Talking about economics with Armen Alchian is like talking about painting with Pablo Picasso. What you notice after reading Armen, or listening to Armen, is that none of his art comes from abstraction alone. This is unusual in our strange field these days, which in Ronald Coase's phrase consists mainly of "blackboard economics." Armen's economics (and Ronald's and Barbara's and that of a handful of our colleagues) comes from experience of life. When he talks about the housing market you discover soon that he is holding vividly in mind the first house that he and his wife Pauline bought in Los Angeles. When he talks about the subsidization of the middle class implicit in the distinction between California State at Fullerton and the Univer-

sity of California at Los Angeles you can hear his experiences with his own children, or echoes of an argument decades ago with a University administrator, not an economist. Armen has gone through life as a tourist in his own economy, noting with wonder the existence of transactions costs, the expensiveness of establishing property rights, the strange rhetoric of vested interests. I've urged him to do an autobiography consisting just of his successive Encounters with an Economy, from his boyhood paper route to the pricing of golf clubs (physical and institutional). It would be better than most textbooks in economics. Not better than his own, of course, which is full of this living sense of economics. The textbook is coming out in a new edition soon, for which praise the Lord. I learned more economics from his old *Exchange and Production Theory in Use*, earnestly pressed on me by his prize student Steven Cheung when we were both beginning teachers at Chicago, than from any 100 pounds of tomes in Blackboard Economics I could name.

The job is to get away from Blackboard Economics and get closer to Alchian Economics. Be a tourist.

For example, I immediately noticed as a long-term tourist in Holland how hard it is to shop. The stores are mainly closed—a proverb has it that Holland is a good place to save money, because the shops are never open. If you work during the day you have serious trouble getting the grocery shopping accomplished. When the stores are open they are thronged with goods-starved people, especially women, with a crazed look in their eyes. Holland has the lowest labor-force participate rate of women with children, and one can see why: families have to choose between having a job or having milk.

And the stores are widely spread. I don't have a car—for the good, Alchian, relative price reason that gasoline costs nearly three times what it costs in the United States—so I do a lot of walking when I shop. I mean a lot. I've been eating cheese nonstop since I arrived in January (and a wonderful pudding concoction called "vla") but have not gained an ounce. That's because I have to walk miles to shop. You'll find one, and only one, pharmacist or grocery store or clothing shop per square mile.

All this is the result of an amazing set of laws, enforced by the local governments, which, as Adam Smith noted, are run by shop owners. The law says that to open a new grocery store, you have to have the permission of the local government, and the local government asks *the existing grocery store owners* whether there is really a "need" for another store. Actually, such laws, you begin to learn from economic tourism, are not that amazing—at any rate they are not rare. We have more mercantilism alive and well and living in modern economies than you might think from textbooks. The historian Macaulay, who was very wise about economics, noted in 1824 that "Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular." It's very unpopular among existing store owners in Holland, for example. People complained so much that at length the store owners allowed "*avondwinkelen*," evening stores, where you could

buy a loaf of bread after 6:00. The "*avondwinkelen*" are by law closed until the other shops have themselves closed.

I can't think of a better project for a class of Dutch undergraduates than to examine the reason that retailing is so much more expensive in Holland than in the United States. (German and Japanese undergraduates would have a similarly good time). Or for a class of Australian undergraduates than to examine the reasons Australia imposes visas like the United States does (that was why I spent an extra day in Los Angeles) and has explicit and insulting airport taxes imposed on passengers and does not support competition on Pacific routes. Or for a class of American undergraduates to dig into the economics of homelessness, and ask why it was not a perceived problem before the middle class imposed zoning and building codes on poor neighborhoods, then took the neighborhoods away anyway for their own middle-class housing.

Economic tourism doesn't always come to Chicago-School conclusions, I have to admit. The bread in Paris is just unbelievably good. Combined with the coffee and the wine, what would be the point of eating anything else? And the production and price of bread in Paris has been strictly regulated for many centuries. European cities are pretty, much prettier than American or Australian cities. Why? Zoning laws and building codes that Americans and Australians would regard as fascistic. In most European cities, large and small, the old downtown is still where people shop, and not because they are quaintly attached to The Old Way. The town councils do not allow strip malls to develop on the outskirts. So the outskirts are charming country scenes and the downtowns are charming urban relics. And I say—I bite my lip when I say it, but I say it still—there's *something* to be said for it. If you could see Gouda and Delft you'd wonder whether we libertarians should fight to the death for the Coralville strip in Iowa City.

Economic tourism makes plain—oh, so plain—the importance of transaction costs. Just knowing where to go to get this or that, and what this or that is worth getting, is a set-up cost of consuming that takes years to bring up to local standards. (Of course, it helps to be a woman: women ask for directions.) I spent hours looking for a fabric store to get a clasp to repair a skirt. Or more exactly I spent a lot of alertness, that crucial input to anything but an economy of utter routine: instead of looking out for another kind of store while I rode the trams I looked for fabric stores. My former colleague at Chicago, Larry Sjaastad, was fond of joking that the reason the prices are higher for tourists is to give the natives an incentive to learn their own language. Actually in an extended sense of "language" he's right.

And economic tourism shows you the cultural differences in attitudes towards work. It's easy to overstate their importance. Sheer hard work is not what makes Americans rich, although, with Japan, it has the lowest rates of vacation-taking of any country in the world. (In Holland as I write in early August, out of a population of 15 million fully 8 million are at present on vacation, and an astounding 6 million of these are outside of Holland. No wonder the game theorist Judith Mehta wondered at the emptiness of Rotterdam streets when she came to visit me last week: they've all defected.) What makes America rich is the absence of obstacles to innovation, for one

thing, and, mainly, the high achievement of modern technology if adopted. Still, one notes different attitudes, good and bad, in the workplace. Dutch academics are not quite so businesslike as Americans. Australian workers really do believe they are just as good as management.

Travel is good for your economics, then, if you allow it. But it's more than allowing it, and it's more than travel. It's an attitude of wonder. In the Blessed Adam Smith's *History of Astronomy* (yes, and he wrote things like *Lectures on Rhetoric and Belles Lettres*, too) he emphasizes the scientific importance of the sense of wonder. We would all do well to follow Smith, and Alchian, in this, and to wonder about economic phenomenon instead of the next turn in the Literature.