
BOOK REVIEW



Mark Kritzman, Senior Editor

THE LOGIC OF LIFE

By Tim Harford, Random House, 2008, Hardcover (Reviewed by Javier Estrada, IESE Business School, Barcelona, Spain)

Most books display on their back cover some positive comments from more or less well known figures. Not often a back cover displays positive comments from a Nobel laureate. Hardly ever a back cover displays rave reviews by *two* Nobel laureates. And I personally had never seen a book being so highly recommended by both Gary Becker and Tom Schelling, Nobel prize winners and pioneers in bringing the economic approach to the mainstream. Their opinions raised my expectations to the point that I thought I was bound to get disappointed with this book. But I was not.

Tim Harford, writer of the 'Dear Economist' column in the *Financial Times*, and author of

another illuminating book, *The Undercover Economist* (which I reviewed in a previous issue of this journal), has done it again. His recent book, *The Logic of Life—The Rational Economics of an Irrational World*, is terrific and in my opinion even better than his previous one.

In the first chapter Harford warms up his readers with a taste of similar things to come later in the book. He discusses that many commentators in the U.S. argue that there is an ever-growing number of violent teenagers who do not fear jail, and who fail to perceive any relationship between doing wrong and being punished for it later. That sounds irrational, doesn't it? Well, not quite, and that is what this book is all about: Start with a fact; then suggest the 'obvious' interpretation; then reason your way to a different—often opposite—interpretation; and finally highlight that only

rational behavior can explain the observed facts.

Harford discusses evidence uncovered by Steven Levitt, author of *Freakonomics*, who compares the way different states deal with young criminals. In this comparison, there are two important facts. First, different states use different ages of majority; second, in all states the juvenile system is more lenient than the adult system—but in different degrees. And this gives just enough information to explore how young criminals respond to the threat of prison.

In states where criminals face the adult courts at seventeen, Levitt compared the behavior of offenders aged sixteen and seventeen; in states where criminals face the adult courts at eighteen, he compared the behavior of offenders aged seventeen and eighteen. And here comes the interesting part. In states

where adult courts are notably more severe than juvenile courts, crime drops dramatically once kids reach the age of majority; in states where the juvenile courts are relatively harsh (and therefore not much less severe than adult courts), the drop in crime does not happen. In other words, young criminals do rationally respond to incentives.

You may get the picture what the rest of this book is about. Harford goes on to discuss several academic articles, in every case bypassing economic jargon, discussing the evidence uncovered, and highlighting an intuitive economic explanation for a wide variety of interesting facts. Ultimately, he shows that rationality is at the heart of most of what we observe in our daily

lives, even when rational individual decisions compound to an irrational outcome in the aggregate (which, as he discusses, it happens often).

Harford may surprise many with his defense of rationality. He convincingly argues that rationality is far more pervasive than we usually think. He finds rationality in the behavior of Mexican prostitutes, in employers' discrimination by race, in the sustained increase in divorce rates, in the overpayment of many CEOs, and in many other interesting places. He even finds rats to be rational! Importantly, Harford does not necessarily approve many of the things we observe in our daily lives; he just highlights that they are the result of rational decisions.

Economics, unfortunately still labeled the dismal science by many, is gaining increasing respect for its ability to explain the world around us. Many of the things we observe daily may not be pretty—but they may still be the result of rational decisions, which is why the economic approach is illuminating. There is a new breed of economists focused on highlighting the importance of understanding Economics, on stressing that it can be both illuminating and fun, on showing that it is much more than a bunch of equations in academic journals. There is a new breed of economists that, in short, are bringing Economics to the mainstream. And of those, Tim Harford is, as this book shows, one of the very best.