

In his 1992 Nobel Prize for Economics acceptance lecture, Gary Becker of the world-renowned economics department at University of Chicago laid out a simple thesis: economics is a tool by which we can examine everything. (It was this fundamental principle that Stephen Levitt, a contemporary of Becker's, cited as the driving principle of his controversial and wildly popular book, *Freakonomics*, in the introduction of its own sequel, *Superfreakonomics*). In this he explicitly rejects the notion that economics is the study of self-interest. Instead of this sometimes narrow substantive definition, he argues that economics is fundamentally a methodological discipline with which we can test the consistency of our beliefs about the world. In order to do this, he introduces four unique examples in which his own research using economic analysis sheds light on humans behaving with a "[...] much richer set of values and preferences."

The first of his analyses is a discussion of discrimination against minorities. Becker approached the issue with an interest in how minority status affected work availability, and expanded the topic to the availability of training and advancement for minorities, the institutional atmosphere which drives these phenomena, and effects of variably-sized distributions of minority statuses on the tenability of discriminatory institutional policies against them.

Becker started this investigation in the early 1950's, a time when the topic had barely been breached in academia. Because of this absence in the scientific literature, he spent years teasing out a viable model of the phenomena (which became the topic of his doctoral dissertation and later book, *The Economics of Discrimination*). He determined that environments played a major role in the amount minority status affected productivity. Specifically, an environment

with a high proportion of a certain minority will yield productivity per capita roughly equal to the per capita productivity of a similar environment with a large proportion of members of the majority.

This leads Becker to ask questions about the sizes of the proportions of the minority. He examines two cases: the United States and South Africa. In the former, the population disparity was large (9 whites to 1 black), and the resultant discrimination cost the majority little but cost the minority substantially. South Africa, however, saw a closer population distribution (4 or 5 blacks to 1 white), meaning oppressive policies cost both the majority and the minority a not insignificant sum in productivity, and subsequently any such discriminatory policies collapsed. The substantive application of these findings is that in still-discriminatory institutions, productivity is harmed substantially when majority-minority distributions are close together, and thus these institutions can be expected to adapt less discriminatory policies or collapse under the weight of their biases.

He goes on to cite more recent research which suggests *beliefs* about relative potential of members of the minority are self-fulfilling prophecies. This finding means that in order to close existing disparities between minorities and majorities, institutions must assure that no one in a position of authority harbors prejudiced beliefs.

The second case is an analysis of crime. Becker investigates crime as the product of rational choice by proxy of a simple expected value calculation he performed one night while committing a parking offense. He did this in direct defiance of the conventional thinking that crime is a product of some psychological defect or institutional imperfection. In order to make this case, Becker revises the conception of rational choice to apply more broadly to situations

where honest people have something to gain and nothing to lose from a criminal act, and yet fail to commit one.

Becker extends these calculations to the institutions that deal with criminal behavior. He contends that rationally, criminal acts can be deterred by increasing punishments, thereby simultaneously reducing government expenditure and increasing public safety. He then cites an extensive body of work investigating the optimal punishments to deter crime, or specific actions of criminals. However, he does so with some caveats. How should the government fit the probability of sentencing innocent individuals into the equation? Why is theft socially harmful when it tends to be a simple redistribution of wealth from richer to poorer individuals? He provides answers to these questions, but leaves one wide open: Does capital punishment deter crime? (And, by extension, does capital punishment increase social welfare?)

The third study is an analysis human capital. It grew from Becker's research on the value of education to different demographic groups. He analyzed these results critically, trying to tease differences out of IQs and aptitudes, but to no avail. It seems education truly is the key to success. The results of his study helped to explain a wide variety of phenomena in the field of macroeconomics. Furthermore, it drove a movement describe the value of education world-wide.

Becker himself published an influential paper on the difference between firm-specific and general knowledge. He discusses the topic briefly by defining the two: firm-specific knowledge is valuable only to the firm which trains individuals in these skills. General knowledge is valuable to any company, and so companies have little incentive to train individuals in such skills instead of simply hiring people who already have that knowledge-set. He uses this discussion as a proxy to mention applications in bargaining theory which extend all the way to divorce rates.

The limit to the applicability of this line of inquiry does not stop at divorce rates, however. Becker discusses the rise of the independence and social status of women in the United States and other developed countries. Their ability to do this is both a cause and effect of emphasis on human capital. More women than men now attend universities, and “Women are flocking to business, law, and medical schools.”

Finally, Becker discusses the formation and continued existences of families. He begins by recounting that the writing of *A Treatise on the Family* was the most difficult intellectual venture of his life. Despite this, he plowed ahead with its writing (and eventually plows ahead with his speech). Substantively, he begins by discussing functions of marriage as rational choice calculations. Parenthetically, he notes that this is controversial in academia, but that the logic “of the common man” prevails.

Ironically, it seems the common man is most in danger of experiencing marriage’s sting. Divorce rates are higher amongst poorer couples, and significantly lower amongst rich couples. However, the recent trend of “no-fault” divorce apparently short-changes single women, who were (in 1992) heads of approximately 20% of U.S. households with children. He uses this statistic to launch a discussion about Malthus’ theory of overpopulation as an economic model which misrepresents the complexity of modern society. Namely, that as women see they can be more productive working than birthing and rearing children, they will be more inclined to work outside the home. However, where families exist, altruism abounds.

The presence of altruism within the family is unusual, in a world where institutions are driven by the assumption that rational self-interest means monetary or power maximization. And though this model works well for industry, families work on the assumption that rational behavior is driven by love, honor, duty, and other nobler virtues, as well as by guilt and greed.

He introduces the rotten-kid theorem (which the transcription hilariously misspells as “the Rotten-Rid theorem”) (Becker 1991). The theorem describes familial relations as situations in which greedy individuals are forced to behave in an altruistic manner toward their parents in order to assure a fair (or attain a better-than-fair) share of the inheritance.

Becker addresses the role of the parent as hugely relevant in the developmental process of children. However, he does mention the possibility of parents who spend little on their children’s assured future welfare by under spending on their education and such in favor of saving up for a more lavish retirement, or assured end-of-life care. The parent does this with the expectation that s/he will leave no inheritance for which the children must compete, leaving an emotional rift between parents and adult children. This rift can be created artificially by the presence of social welfare programs for the elderly, which eliminate the need to instill guilt or loyalty in adult children.

To conclude, Becker reiterates his basic point that economic inquiry is not a substantive analysis of any specific thing so much as it is a mode of analysis by which we may examine anything. And in his concluding sentences, he foresaw the closing gaps between economics and the other social sciences, as economic analysis (specifically, rational choice theory) became recognized as a valuable tool available to all the social sciences.

## References

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