

# TOBIN PROJECT UPDATE

FALL 2013

## Exploring Economic Inequality *Consequences and Mechanisms*

Economic inequality has surged over the past several decades in the United States. Unfortunately, agreement on what this surge means for our society has been elusive. While some think rising inequality is among the greatest threats facing the nation, others maintain that it is a sign of strength in a capitalist economy. Despite a great deal of careful research, scholars do not yet know how increasing inequality affects such major outcomes as the stability of our economy and the health of our democracy.

By pursuing a novel research approach with a dream-team of scholars, the Tobin Project aims to break this impasse. The idea is simple: If we can better understand the *mechanisms* through which inequality may have an impact, we could then begin to understand the broader consequences for society.

As a first step, a Tobin working group is now exploring one promising mechanism: **Does high or rising inequality impact individuals' behavior and decision making?** It's possible that rising inequality changes how people make decisions in their own lives, from how much money they borrow to how they assess risk to how they cast

their ballots. To date, no one has directly studied this question. Yet if scholars understood whether and how inequality influences people in these ways, they would be far better positioned to determine whether and how inequality affects large-scale outcomes like economic growth, societal stability, and democratic processes. In 2013, David Moss, Anant Thaker and Howard Rudnick released a working paper outlining this unique approach, "Inequality and Decision Making: Imagining a New Line of Inquiry."

The Tobin Project is thrilled to be working with a group of leading economists and psychologists on these questions,

including Ilyana Kuziemko and Raymond Fisman (*both of Columbia Business School*), Michael Norton and Francesca Gino (*both of Harvard Business School*), and Nancy Adler and Wendy Berry Mendes (*both of UCSF*). Together with Moss and Rudnick, this group has launched first-of-their-kind laboratory experiments to investigate individual behavior under conditions of inequality. The promise of this novel approach is palpable; the project is already drawing interest from a range of top scholars who seek to understand how unprecedented inequality is affecting—and will ultimately shape—the American society.



↑ Ilyana Kuziemko (*Columbia Business School*) and Michael Norton (*Harvard Business School*) consider early results and next steps for the Tobin Project's economic inequality research.

### INSIDE

- A ground-breaking volume on preventing special interests from "capturing" government
- Two historical inquiries on what makes for a healthy American democracy
- Where will Afghanistan be in 2020? The possibility of neutralization

## JUST PUBLISHED! *Preventing Regulatory Capture: Special Interest Influence and How to Limit It*

Major crises—like the Deepwater Horizon oil spill of 2010 and the global financial crisis of 2008–2009—provoked much talk of “regulatory capture” but precious little consideration of how to prevent it. Over the past several years, the Tobin Project has targeted this critical issue: **How can government agencies effectively serve the public without being “captured” by the very firms and industries they seek to regulate?** To begin addressing this question, the Tobin Project has worked with leading scholars from political science, history, economics, and law to

produce a pioneering volume, *Preventing Regulatory Capture: Special Interest Influence and How to Limit It* (eds. Daniel Carpenter and David Moss, Cambridge University Press, 2014). The book puts forward a new, testable definition of regulatory capture and carefully considers whether, and under what conditions, capture can be prevented. The volume is part of a broader Tobin Project initiative to re-imagine regulatory scholarship that brings together both scholars and policy-makers to ask how government can better serve the public good.



Senator Sheldon Whitehouse (*D-RI*) and James Leach (*former Chair of the House Committee on Banking and Financial Services (R-IA) and Professor, University of Iowa School of Law*), in a co-authored afterword to the volume:

*“[T]he threat of regulatory capture has been broadly recognized. This volume takes the next major step forward by illuminating the contours of this threat and, perhaps most importantly, turning attention toward the question of prevention. This volume not only demonstrates that regulatory capture is a real threat, but also identifies forms of capture that have not been recognized in the earlier literature....”*

### Advance Praise for the Volume

“‘Regulatory capture’ is an often used, little understood term. It is quoted frequently by those who would like to question a regulation for any of a number of agendas without an effort to understand the science or reason behind it. Daniel Carpenter and David Moss and the co-authors have written a long overdue analysis of the issue and what, when proven true, can be done about it.”

—Christine Todd Whitman (*former Governor of New Jersey and former head of the Environmental Protection Agency*)

“This is an enormously useful collection that goes beyond alleging and lamenting regulatory capture to provide diagnostic tools for evaluating purported instances of captured regulatory regimes and institutional techniques for avoiding their emergence and mitigating their effects.”

—Jerry Mashaw (*Sterling Professor of Law, Yale University*)

“This collection deftly sharpens our thinking about the nature of regulatory capture. It compiles the most multidimensional treatment we have of capture and the American regulatory state.”

—John Braithwaite (*Distinguished Professor and founder of the Regulatory Institutions Network, Australian National University*)

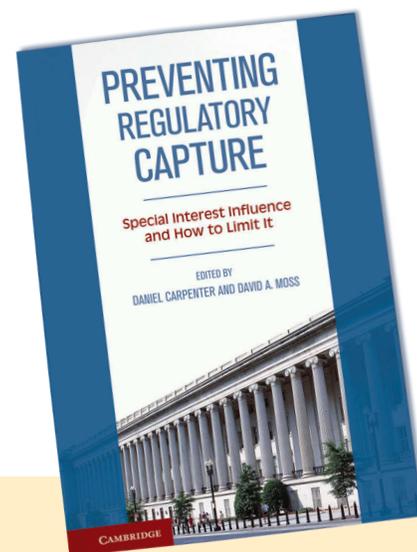


Illustration by Timothy Lambert ↑

## Professor Nancy Adler on Inequality Research with the Tobin Project

*Professor Nancy Adler, Vice-Chair of the Department of Psychiatry and Director of the Center for Health and Community at University of California, San Francisco, spoke about her involvement in the Tobin Project's Inequality & Decision Making initiative.*

**THE TOBIN PROJECT:** What do you consider most promising about this research inquiry?

**PROFESSOR ADLER:** What I found fascinating about this project was the formulation on the somewhat broader scale of the idea that inequality may lead to less rational decision making. It's exciting to try and take what is happening at the societal level and see if you can simulate critical aspects of it in the lab and really begin to understand what the mechanisms are by which inequality operates.... The actual reduction of inequality is going to take a while. In the meanwhile, we need to be buffering some of the adverse effects of inequality on people and their decision making and their health. Understanding the mechanisms gives us more possibilities for doing this—and I think we can make people's lives better.

**THE TOBIN PROJECT:** How do you think bringing in different perspectives changes the direction of the research?

**PROFESSOR ADLER:** When you bump up against the borders of other disciplines you see that people are framing questions in a different way, and think about processes and issues that you've never thought about....I've learned



↑ Nancy Adler (University of California, San Francisco) has been closely involved with the Tobin Project's lab research on inequality and decision making.

from working in interdisciplinary teams that what is error variance in one discipline is actually the main focus in another discipline. So what we try to either ignore or control away for in our own field is often exactly what another field is really interested in explaining. When you put it together you get a much richer understanding.

### Inequality and Risk-Taking

*In "Inequality and Decision Making: Imagining a New Line of Inquiry," authors David Moss, Anant Thaker and Howard Rudnick explore how inequality might affect individuals' risk tolerance:*

It is often said that elite runners perform best when placed in heats with their fastest competitors. Yet most of the rest of us would probably not achieve our best times running against Olympic champions. Why might this be? Perhaps we take clues from those around us—including how close or far away from us they are—about what we're capable (or incapable) of and how hard to try. If so, then the increased distance associated with heightened income inequality could have implications for how we assess our own capabilities and how we decide the amount of effort to expend—and the level of risk to assume—in pursuing any particular challenge or undertaking.

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*"It's incredibly valuable to have a group like Tobin that's bringing together people from different perspectives all interested in the same issue. You don't get that at a lot of other places."*

—Ilyana Kuziemko (Economics, Columbia Business School)

## A Brand-New Course on The History of American Democracy

If the U.S. is going to overcome major dysfunction within its political system, it is essential to know how our democracy has worked (and how it has sometimes failed to work) over the course of the nation's history. As part of a new research initiative, the Tobin Project is asking: **What factors and institutions have been most central to the functioning of American democracy?** One way into this question is to foster new research and thinking—perhaps even a new sub-field within history—focused squarely on the institutions of democracy and how they've developed over time. As a first step,

Professor David Moss (*Harvard Business School*), in dialogue with colleagues at the Tobin Project, has developed a new undergraduate course that has the potential both to catalyze new research and to enliven a new generation of scholars and citizens to the promise and challenges of America's unique democratic experiment.

In the fall of 2013, Professor Moss launched "The History of American Democracy" as part of the new Harvard College General Education program. The course, which is cross-listed at Harvard Business School, breaks new ground by

employing the case method of instruction to immerse students in historical decisions. In its first run, the course features twenty original cases that explore key episodes in which Americans confronted challenges ranging from the design of the federal government to dilemmas posed by financial crises, sectional divisions, and racial and ethnic tensions. Over the long-term, the Tobin Project hopes to build upon the success of Professor Moss's course at Harvard to seed related courses at other colleges and universities, and potentially at the high school level as well.

## Graduate Student Fellowship Program

### *Fostering Interdisciplinary Research on Real-World Problems*

To engage a new generation of scholars in more problem-oriented research, the Tobin Project runs a Graduate Student Forum (GSF) in Cambridge and New Haven, bringing together students from across universities in a uniquely interdisciplinary environment. The program has grown since its inception in 2010 and has built a thriving community of young researchers committed to serving society through their scholarship.

Kim Pernel-Gallagher, a Ph.D. Candidate in Sociology at Harvard reflects: "The best part of being a Tobin Project GSF was that it gave me an opportunity to discuss my work with smart people who care about solving real-world problems.... The most refreshing thing about this program was that it encouraged us to pursue projects where policy-relevance was not an afterthought. It provides a rare space where academic and practical



↑ Graduate students discuss their work at a Tobin Project forum in New Haven.

goals align.... I hope to remain involved with the Tobin Project in some capacity throughout my career."

Jeff Friedman, now a Postdoctoral Fellow at Dartmouth College, agrees: "The GSF program gave me valuable support for summer research, and then a great opportunity

to hone my project and presentation before applying for jobs. This kind of funding and feedback can be scarce in graduate school, and GSF is such a good resource for that—and it's also simply enjoyable to get to know a terrific group of people outside your department."

## The Corporation and American Democracy *A New Historical Approach*



↑ Elizabeth Pollman (*Loyola Law School*) and Daniel Crane (*University of Michigan Law School*) at the May 2013 Tobin Project meeting on the Corporation and American Democracy.

What role have corporations played in American democracy over time and what role should they play in the present? Since 2011, the Tobin Project has been working with an immensely talented group of scholars on an edited volume aiming to address these questions and, more broadly, to create a rigorous new history of the relationship between the corporation and American democracy. The participating scholars met most recently in Cambridge in May 2013 to discuss their early draft chapters. In February, the groups will reconvene to finalize their work and to receive feedback from policymakers, with publication expected later in 2014 or early 2015.

The volume traces changing conceptions of the corporation over time (from the rise of general incorporation in the 19th century to the rise of regulatory taxation in the 20th) as well as varying attempts—among both reformers and regulators—to grapple with corporate power and especially corporate influence in American politics. The research is particularly timely as it comes in the midst of numerous debates surrounding the role of corporations in our society, ranging from the landmark *Citizens United* decision to political battles over corporate tax policy. Our hope is that this project will offer a new historical perspective on the American corporation and its vital—if underappreciated—role as an institution of American democracy.



Adam Winkler (*UCLA School of Law*) and David Moss (*Harvard Business School*) at a recent ↑ Corporation and American Democracy workshop.

### Contributors to *The Corporation and American Democracy*

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and William Novak

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Ajay Mehrotra (*Professor of Law, Indiana University Maurer School of Law*)

William Novak (*Charles F. and Edith J. Clyne Professor of Law, University of Michigan Law School*)

Elizabeth Pollman (*Associate Professor of Law, Loyola Law School*)

James Sparrow (*Associate Professor of U.S. History, University of Chicago*)

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## Sustainable National Security Strategy

### *A Tobin Project Inquiry*

**How can the U.S. maintain an effective security strategy in the face of growing fiscal constraints at home and shifting economic power dynamics on the world stage?** The Tobin Project's national security effort—led by Stephen Van Evera (*Political Science, MIT*), with Jeremi Suri (*History, University of Texas at Austin*) and Benjamin Valentino (*Government, Dartmouth College*)—is generating new research on this question and beginning to influence the policy debate around these critical issues.

Through this initiative, historians and political scientists are together investigating both the nation's experience with



↑ Stephen Van Evera (*MIT*) at a Tobin Project National Security workshop in June.

similar challenges in the past and the implications moving forward in the current global economic climate. On the historical side: What have fiscal constraints meant

for security strategy in the past? Have great powers responded well or poorly as these constraints became tighter? How should the U.S. respond? On the political side: Which current commitments maintained by the U.S. abroad are necessary and which can be scaled back? How does the state of the nation's economy influence U.S. strength abroad? Scholars working on these questions, and more, are currently publishing policy papers and will come together in the next year for an academic volume on these long-term questions. In the coming months, the Tobin Project will also bring scholars to D.C. to share this new research with policymakers in Congress and the Administration.

## A Conversation with Daniel Byman and Sara Bjerg Moller on National Security Research with the Tobin Project

Professor Daniel Byman (*School of Foreign Service, Georgetown*) and Ph.D. candidate Sara Bjerg Moller (*Political Science, Columbia*) discuss their experience with the Tobin Project and the Sustainable National Security Strategy effort, to which they are contributing a chapter on “The United States and The Middle East: Interests, Risks and Costs.”

**THE TOBIN PROJECT:** How does bringing together scholars from different disciplines to examine a question influence the resulting research?

**PROFESSOR BYMAN:** There's no monopoly on truth that any discipline has. When you bring in history, when you bring in economics, when you approach a problem from different disciplinary angles, you are together much more likely

to get closer to a full understanding of the problems and the alternatives.

**SARA BJERG MOLLER:** In addition to this interdisciplinary focus that the Tobin Project has... there's also an inter-generational aspect too and that has been a particular strength I think. This project has brought together junior scholars like myself and afforded me the opportunity to work with senior scholars like Dan and Ben Valentino and Steve Van Evera. I think that's a real strength in the project.

**PROFESSOR BYMAN:** I'll flip that around. One of the things I admit is that junior scholars tend to be much more in touch with latest developments in the field both from a theoretical methodological point of view and in general—frankly,



↑ Daniel Byman (*Georgetown*) and Sara Bjerg Moller (*Columbia*) share their ideas at the latest National Security meeting.

they have a lot more energy. So, it's good for I think people who are more established to have younger people around who are able to push them forward.

## “Afghanistan 2020” *The Possibility of Neutralization*

### Where will Afghanistan be in 2020?

According to new research by Professor Audrey Kurth Cronin (*Public Policy, George Mason University*), Afghanistan, Pakistan, India, and neighboring countries could be significantly better off if Afghanistan pursues a policy of “neutralization.” Professor Cronin is perhaps the leading expert on the history of neutralization—in cases such as Switzerland and Belgium in the 1800s, and Austria following WWII—and has applied this knowledge to the thorny problem of Afghanistan for the first time in research seeded by the Tobin Project. Professor Cronin’s research has gained widespread attention in the Afghan community in the U.S as well as in “Track II” diplomacy in Central Asia.

This fall, the New America Foundation held a workshop at which Professor Cronin shared her work with former senior Afghan and U.S. policymakers. Drawing on an examination of past successes and failures of neutralization, she argued that Afghanistan could be stabilized after the withdrawal of coalition forces if it declared neutrality and major powers with interests in the region agreed



↑ Audrey Kurth Cronin (*George Mason University*) at the Tobin Project’s June 2013 National Security workshop.

to respect that status. Participants at the workshop saw great potential in this idea for efforts to make peace in the region. A former Afghan ambassador is currently incorporating Professor Cronin’s ideas into a diplomatic and political strategy for the future of Afghanistan that will be discussed at multinational meetings this winter, with hopes that it could become a linchpin for greater regional stability.

*“The Tobin Project offers a unique venue that all too often is lacking—where the academic community is able to engage in important policy discussions with key policy-makers in an environment conducive to probing analysis and critical perspectives. The conversations and discourse I’ve engaged in at Tobin have been instructive in shaping my outlook on a variety of pressing foreign policy issues.”*

—Steven Feldstein  
*(Director, Office of Policy, U.S. Agency for International Development)*

The Tobin Project’s National Security initiative is supported in large part by the Carnegie Corporation of New York.



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Barry Posen (*MIT*) engages with scholars and policymakers at a Tobin Project conference in 2012. ↑

## The Tobin Project Wins a 2013 MacArthur Award

This year, the Tobin Project won a MacArthur Award for Creative and Effective Institutions, which recognizes “exceptional organizations that...generate provocative ideas, reframe the debate, or provide new ways of looking at persistent problems.” MacArthur Foundation president Bob Gallucci described the foundation’s outlook: “[W]e hope our investment will help ensure that they continue to thrive and to increase their reach in the future.” The Award does not provide funding for Tobin’s ongoing research programming, but rather is a long-term investment in the future of the organization. As part of the Award, we look forward to working with MacArthur and Tobin’s stakeholders to explore ways to scale the impact of the Tobin Project’s model for bringing together this country’s leading minds to study its most pressing problems.

## Mission Statement

The Tobin Project is a catalyst for transformative research in the social sciences. The mission of the Tobin Project is to mobilize, motivate, and support a community of scholars across the social sciences and allied fields seeking to deepen our understanding of significant challenges facing the nation over the long term, and to engage with policymakers at every step in this research process.

*“One thing that the Tobin Project does so very effectively is it convenes people to actually ask what are the big trends, what are the big issues, and what could we possibly explore and propose that might relate to them. As a result, there is a potential for re-framing some of the smaller problems and for coming up with something more than incremental knowledge.”*

—Martha Minow (Dean, Harvard Law School)