

Bootleggers and Baptists: How Economic Forces and Moral Persuasion Interact to Shape Regulatory Politics

Adam Smith and Bruce Yandle. 2014. Washington, D.C.: Cato Institute. ISBN 978-1-939709-36-3. \$24.95.

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In 1983, in what has become a well-known article, Bruce Yandle proposed his Bootlegger and Baptist theory of regulation. In a 1999 follow up article, Yandle described the theory as a two-pronged attack with Baptists staking out the moral high ground and serving as the public face for the regulation while the Bootleggers, who stand to profit under the new regulatory scheme, stay out of sight but work the political machinery by applying pressure, influence and money where it will make the most difference. In this way new regulations can be promulgated that satisfy two politically valuable but frequently different groups.

To be clear, despite the title, the groups involved are not always religious or engaged in illegal activities. All that is required is that one group take a policy position motivated by morality issues while another takes basically the same position motivated by profit opportunities. In the case studies, the “Baptists” include environmental groups, worker’s rights groups, religious groups, and political activists among others, while “Bootleggers” have included actual bootleggers as well as retail stores, banks, insurance firms, labor unions, and so forth.

Bootleggers and Baptists, co-written with his grandson Adam Smith, is Yandle’s most extensive exploration yet into this theory. In this book the authors spell out a more detailed theory on how the Bootlegger and Baptist coalitions form (the first three chapters), and how they are often effective yet sometimes not provide a number of case studies and examples (chapters four through seven). They postulate that many regulations can be attributed to these sorts of coalitions. The last chapter addresses the future of these continued coalitions and an appendix is included that reprints Yandle’s original 1983 article.

Smith and Yandle describe four strategies which Baptists and Bootleggers can adopt to accomplish their regulatory goal. These strategies require varying degrees of cooperation between the two groups but in all cases both groups are required in some form to accomplish the goal. Indeed, both groups are so necessary that sometime Bootleggers will create a sham Baptist group or heavily fund an existing Baptist group. The four strategies are:

- The covert strategy. A Bootlegger lobbies for a policy but adopts the stance and rhetoric of a Baptist. A general example is when an industry seeks trade restrictions ostensibly to protect consumers from inferior goods from abroad, with the result of reduced competition and higher prices.
- The non-cooperative strategy. Given a division within one of the groups, one party to that division allies with the other group. As an example, an industry characterized by new and old technologies might see new technology firms ally with a Baptist group to address the social ills still existing in the old firms. Whether those ills are higher levels of pollution or child labor, they have a moral component which makes it harder for the target firms to compete.
- The cooperative strategy. Baptists and Bootleggers make direct common cause. An example is the political alliance of large retailers, large insurance firms, unions, and health care activists in supporting the Affordable Care Act, which promises to expand health care access but will also be very profitable for some firms.
- The coordinated strategy. This strategy requires a third party, frequently political leadership, to bring the groups together in a political coalition. An example is when President Clinton brought the housing industry and home ownership activists together in a political coalition to pressure certain groups for a change in lending standards to allow more people to get mortgages.

Smith and Yandle also spend time investigating the motivations and incentives of the two groups. The explanation for Bootlegger actions is pretty straightforward and comes from Public Choice theory. Smith and Yandle credit Gordon Tullock as being the intellectual inspiration for their work, specifically pointing to Tullock's work in rent seeking behavior (p. 37). The Baptists are a bit more complex to explain. Smith and Yandle utilize a wide swath of economic thought from Adam Smith's (the Scottish one, not the co-author) impartial spectator (p. 57) to Vernon Smith's laboratory observations about reciprocity behavior (p. 59). They also appeal to Richard Dawkins' theory that humans cooperate as a survival mechanism and that institutions such as religions and political parties are an extension of this survival instinct (p. 61).

About half the book is case studies. The authors delve into the classic case studies of the regulation of alcohol, tobacco, and drugs, but then present an interesting review of climate change regulations, the Troubled Asset Relief Program, and the Affordable Care Act. These three chapters

are current and well done, and could be very useful in the classroom.

The authors close with a relatively pessimistic—at least for those who find these coalitions distasteful—assessment of how the future looks. They point out that voters are likely to remain rationally ignorant about these sorts of activities (p. 171) and that these coalitions have been successful and nothing promotes continued activity like success (p. 172). They note, however, that there is something of a lopsided nature to these coalitions' actions in that they are more likely to form around social regulation rather than economic regulation (p. 169). They point out that between 2001 and 2012 the annual production of regulations with large economic impact (over \$100 million) has increased by 40 percent (p. 174). This is in part driven by opportunities for these coalitions, and as long as that sort of money is on the table it will attract these coalitions.

Smith and Yandle offer a challenge to Christians and Christian economists. Much of the success of these coalitions stems from two kinds of ignorance: rational ignorance of the voting population and specific economic ignorance of the Baptist part of the coalition.

Baptist groups are Bootlegger accomplices because they fail to understand economics. The only other explanation is that they do understand the economics and are *willing and knowing* accomplices because they get paid off. Smith and Yandle describe how the Sierra Club changed its position on natural gas fracking a couple of times alongside a \$26 million donation from the natural gas producer Chesapeake Corporation (pp. 21-22). But, for the most part, the assumption is that Baptists are sincere about their cause.

The Baptist part of the coalition is a cover story for the Bootlegger but the cover story does not even have to be very good. The authors observe, “Although it is necessary to provide Baptist cover, this cover need not be especially coherent in terms of standing up to intellectual scrutiny. Detailed scrutiny is usually the last thing on the public’s mind” (p. 65). To the extent that some of the Baptists in these coalitions are actual Baptists and other Christians, the challenge to the Christian economist as teacher is to reach the broader Christian community with this story. The Baptists need to realize they are being used as a tool in a bigger game and are being exploited for their ability to justify and cover bad political and business behavior. As Smith and Yandle explain, the Baptists are there to gain voter trust with a sympathetic cover story (p. 65).

Christian economists are uniquely positioned to address this ignorance, but it needs to go beyond the classroom and reach the broader Christian community. Christian groups and individuals have given support to a variety

of causes, which are Bootlegger-Baptist stories such as environmental causes; aid and poverty alleviation; health care reform; alcohol, tobacco and drug restrictions; and international sweatshop reforms. These causes may be worthwhile and consistent with Christian teachings, but that is not the point. The lesson of Smith and Yandle is that methods and approaches matter. Christians in these cases are failing to live up to the command in Matthew 10 to be as shrewd as serpents. Christian economists should endeavor to explain the Bootlegger/rent-seeking aspect to these causes and also offer better ways to impact change. This is a stewardship issue we need to take seriously.

The other lesson for Christians that Smith and Yandle provide is that Christians should not rely on government to be the agent of moral change. It is a fallen institution and subject to all the foibles and flaws that come with that condition. Jesus did not appeal to His followers to use the government to bring about the changes and morality He taught. If Christians want a change in public morality, using the coercive force of government is not the way to achieve it. Others will use such efforts to profit not by serving others, which is the biblical way to profit, but by finding ways to capture wealth from others. Jesus taught personal evangelization as the way to effect change, true change only the Spirit can bring through the preaching and teaching of the Word. Government is not the tool for effective evangelization or for creating genuine heart change.

Smith and Yandle have provided an interesting theory of how regulations happen and how various interest groups benefit, or at least seem to benefit. The analysis is eye-opening. Benefits for Baptists are largely illusory. They may gain a reduction in the public engagement in the targeted activity, but frequently the activity goes underground, and it is difficult to say if there is any net decrease in it. Bootleggers benefit by capturing rents and higher profits, although some, possibly most, of these returns can be dissipated in efforts to grease the political machinery. Moreover, if there are competing Bootleggers then much more can be expended by the entire group than the winner will capture.

This leaves one group that benefits no matter what: the politicians. They can claim to be making the world a better place by trying to stamp out substance abuse or pollution and so forth, which will win praise and votes. But they also capture donations and lobbyist attention and all the back room benefits as the Bootlegger seeks their favor. This is the story of regulation, and Smith and Yandle make a worthy public contribution by telling it in an engaging manner.

References

- Yandle, B.** (1983). Bootleggers and Baptists: The education of a regulatory economist. *Regulation*, 7(3), 12-16.
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