Glittering Tomes

From Marlboro Man to megachurch: scintillating economics reads to light up your gift list

BY GENE EPSTEIN • As a compulsive reader of books relating to my field, economics, I offer a recent crop of page-turners that might make good holiday gifts: six titles in all, two by the same author, and only one by a credentialed economist.

That one is a Brookings Institution study by New York University finance professor Baruch Lev, with the catchy title Intangibles: Management, Measurement, and Reporting (2001). A more commercial publisher might have called it How to Profit From the Systematic Undervaluation of Intangibles—without disappointing us.

While you can’t touch ‘em, intangibles can generate a lot of income. They include patents, copyrights, brands, trademarks, trade secrets and “unique organization structure” such as an “innovation-based supply chain.”

The point is: intangibles have been “catapulted into the role of the major value driver of business.” The recent cognoscenti about the New Economy (a term Lev shuns) shouldn’t be allowed to obscure that fact. It has all been caused by “the unique combination of two related economic forces,” he writes; “intensified business competition” brought on by globalization and deregulation, and “the advent of information technologies.”

In only 334 pages of generally clear and occasionally sparking prose, Lev tries to develop all the economic, political and accounting implications of this fundamental change. Also read the case histories (pages 159 to 165), and the comments by various critics (pages 177 to 183).

Among Lev’s many striking observations, the most memorable is: “Despite widely held beliefs that corporate financial statements convey historical, objective facts, practically every material item on the balance sheet and income statement, with the exception of cash, is based on subjective estimates about future events.”

Investors won’t want to miss the “Systematic Undervaluation of Intangibles” section (pages 98 to 99), in which Lev reports findings of his study of “1,500 R&D-intensive companies.” Firms with “a high growth rate of R&D [research and development] expenditures” and “relatively low growth rate of earnings” are “systematically undervalued by investors.” The reason: Accounting rules require R&D to be fully expensed, which depresses earnings in the short run. That wouldn’t occur if spending on research and development were treated like any other capital expenditure.

Twenty Ads That Shocked the World (2000), by James Twitchell, a University of Florida professor, is a sort of companion book to Intangibles. It’s also a great coffee-table book. It records the advent of 20 great brands, with reproductions of the ads that launched them—including the Marlboro Man, the Hathaway Man, Listerine, Anacin and Nike.

Twitchell’s energetic writing style, laced with wit and insight, makes you forgive his occasional excess of cynicism. I also picked up his most recent work, Branded Nation: The Marketing of Megachurch, College Inc., and Museumworld (2004), an often hilarious dissection of branding in the non-profit world. Don’t miss his excoriation of the annual “America’s Best College Issue” of U.S. News & World Report, or his discussion of why having Jewish students on campus is now perceived as a brand necessity.

As antidote to these 600-page biographies that drown their subjects in a wailer of detail, I recommend the biographical essays in Giants of Enterprise: Seven Business Innovators and the Empires They Built (2001), by Harvard Business School professor Richard Telow. The critics may be right that Telow fails to knit his stories together. But he’s by a great mind when those stories are well-told, and shows an intense analytical devotion to almost 500 pages each to such titans as Andrew Carnegie, George Eastman, Henry Ford and Sam Walton. Telow tries to probe the nature of their geniuses. For example, he focuses on a revealing moment in Sam Walton’s career: when he danced the hula on Wall Street—doing something he did not want to do, because he was afraid to be at a bet by people he could have fired in an instant—to demonstrate that “he put the company and the people who worked for him above his own particular desires.”

Investment banker Peter Peterson has written the same jeremiad three times: Will America Grow Up Before It Grows Old? (1996), Grey Dawn (1999), and now, Running on Empty (1994), this last one appropriately subtitled, How the Democratic and Republican Parties Are Bankrupting Our Future and What Americans Can Do About It.

The killer paragraph is on page 123. In it, we learn that “benefit outlays for just five programs—Social Security, Medicare, Medicaid, and federal civilian and military pensions—will exceed federal revenues by the year 2050 if tax and spending policies are not reformed. In other words, no cash on hand to even pay interest on the ballooning debt. But I suggest starting from the beginning, taking note of his classic quip, “The term Social Security ‘trust fund’ is...a fiscal oxymoron since it isn’t funded and can’t be trusted.” But then skip the flawed discussion on pages 49 to 50 of saving, investment and growth—obsessions of Peterson’s that you’ll never talk him out of. His views on the trade deficit (pages 90 to 99) are more defensible, although off the main subject.

The rest is essential reading, written with Peterson’s usual skill and felicitous phrasing. His detailed history of how the unfunded-entitlements monster mortgaged our future would be funny if it weren’t so appalling. For example, economist Paul Samuelson—whose best-selling textbook taught economics to a whole generation—could write for Newsweek in 1967 that “social insurance” was “actuarially unsound” and “the greatest Ponzi game ever contrived.” But not to worry: With “national product...growing at compound interest” and “more youth than old folks in a growing population,” the system would always meet its obligations.

Not if those obligations rise much faster than national product, while the ratio of youths to old folks declines. Peterson proposes for radical reform, by now the product of years of reflection, are all astute. But when he proposes that government “mandate savings in personal retirement accounts,” I only wish he appreciated the grotesque irony. The same government that betrayed us with its false promises and profligacy would now be the giver the power to violate our property rights by forcing us to save.

And speaking of planning, how could Peterson allow Running on Empty to be published without an index?

The Wastrels of Defense (2004), by Winslow Wheeler, is a companion volume to Running on Empty. A 31-year veteran of the U.S. Senate and the General Accounting Office—most recently as defense analyst for the Republican staff of the Senate Budget Committee—Wheeler takes us on a harrowing tour of Washington, Inc., where grand larceny is such an acceptable activity, it’s even the subject of letters.

While the book’s main focus is on defense spending, its analysis is wide-ranging. Wheeler adds juice to his story by naming names. The day the Senate passed a $40 billion health-care giveaway to military retirees in October 2000, he heard a senator laughingly exclaim to a few of his colleagues, “Boy, that was the worst vote I ever cast.” The speaker was the freshman Sen. John Edwards. Wheeler recalls feeling “surprised and disgusted” that any senator could so easily give himself permission to do the wrong thing for personal gain.

John Kerry, meanwhile, is put in the special, non-too-flattering category of “ghost senator” (pages 22 to 23). Otherwise, Wheeler separates the “purebred wastrels” from the handful of “mixed breeds,” who “demonstrate occasional spasms of character.” In his proposals for radical reform (“Twelve-Step Program for Recovering Wastrels”), he makes it clear that the mixed-breeds are our only hope.

John McCain is described as a mixed breed of a special kind. McCain has long been the most outspoken critic of pork spending. His Website has counted $35 billion of pork in defense appropriations since Dec. 9, 1998, the day he and two other senators threatened to “employ all legislative tactics at our disposal, consistent with the rules of the Senate” whenever pork spending came before the Senate. McCain has yet to make good on his threat. But it’s surprisingly easy for a rebel to slow the process down by resorting to such tactics as “forcing the Senate to listen to a clerk read every word of a bill (the pokiest ones are hundreds of pages long).”

What finally made Wheeler seek early retirement was the spectacle of senators calling the December 01 “emergency” appropriation of $20 billion to fund pork-barrel projects in their home states. (He offered his resignation after publishing an online article about what happened, under the pseudonym Spartacus.)

A depressing read. But as Friedrich Nietzsche said, “What doesn’t kill me makes me stronger.” Maybe even strong enough to write your senator: The thought counts most in this gift-giving season, and nothing’s more thoughtful than the gift of a thought-provoking book.