

who stumbled upon a secret cavern with a corpse inside that wore a ring. When Gyges put on the ring, he found that it made him invisible. With no one able to monitor his behavior, Gyges proceeded to do woeful things—seduce the queen, murder the king, and so on. Glaucon's story posed a moral question: could any man resist the temptation of evil if he knew his acts could not be witnessed? Glaucon seemed to think the answer was no. But Paul Feldman sides with Socrates and Adam Smith—for he knows that the answer, at least 87 percent of the time, is yes.

Chapter 2

HOW IS THE KU KLUX KLAN LIKE A GROUP OF REAL-ESTATE AGENTS?

As institutions go, the Ku Klux Klan has had a markedly up-and-down history. It was founded in the immediate aftermath of the Civil War by six former Confederate soldiers in Pulaski, Tennessee. The six young men, four of whom were budding lawyers, saw themselves as merely a circle of like-minded friends. Thus the name they chose, "kuklux," a slight mangling of *kuklos*, the Greek word for "circle." In the beginning, their activities were said to be harmless midnight pranks—for instance, riding horses through the countryside while draped in white sheets and pillowcase hoods. But soon the Klan evolved into a multistate terrorist organization designed to frighten and kill emancipated slaves. Among its regional leaders were five former Confederate generals; its staunchest supporters were the plantation owners for whom Reconstruction posed an economic and political nightmare. In 1872, President Ulysses S. Grant spelled out for the House of

Representatives the true aims of the Ku Klux Klan: "By force and terror, to prevent all political action not in accord with the views of the members, to deprive colored citizens of the right to bear arms and of the right of a free ballot, to suppress the schools in which colored children were taught, and to reduce the colored people to a condition closely allied to that of slavery."

The early Klan did its work through pamphleteering, lynching, shooting, burning, castrating, pistol-whipping, and a thousand forms of intimidation. They targeted former slaves and any whites who supported the blacks' rights to vote, acquire land, or gain an education. But within barely a decade, the Klan had been extinguished, largely by legal and military interventions out of Washington, D.C.

If the Klan itself was defeated, however, its aims had largely been achieved through the establishment of Jim Crow laws. Congress, which during Reconstruction had been quick to enact measures of legal, social, and economic freedom for blacks, just as quickly began to roll them back. The federal government agreed to withdraw its occupation troops from the South, allowing the restoration of white rule. In *Plessy v. Ferguson*, the U.S. Supreme Court gave the go-ahead to full-scale racial segregation.

The Ku Klux Klan lay largely dormant until 1915, when D. W. Griffith's film *The Birth of a Nation* (originally titled *The Clansman*) helped spark its rebirth. Griffith presented the Klan as crusaders for white civilization itself, and as one of the noblest forces in American history. The film quoted a line from *A History of the American People*, written by a renowned historian: "At last there had sprung into existence a great Ku Klux Klan, a veritable empire of the South, to protect the Southern country." The

historian in question was U.S. president Woodrow Wilson, one-time scholar and president of Princeton University.

By the 1920s, a revived Klan claimed eight million members. This time around, the Klan was not confined to the South but ranged throughout the country; this time, it concerned itself not only with blacks but also with Catholics, Jews, communists, unionists, immigrants, agitators, and other disrupters of the status quo. In 1933, with Hitler ascendant in Germany, Will Rogers was the first to draw a line between the new Klan and the new threat in Europe: "Papers all state Hitler is trying to copy Mussolini," he wrote. "Looks to me like it's the Ku Klux that he is copying."

The onset of World War II and a number of internal scandals once again laid the Klan low. Public sentiment turned against the Klan as the unity of a country at war trumped its message of separatism.

But within a few years, there were already signs of a massive revival. As wartime anxiety gave way to postwar uncertainty, Klan membership flourished. Barely two months after V-J Day, the Klan in Atlanta burned a 300-foot cross on the face of Stone Mountain, site of a storied rock carving of Robert E. Lee. The extravagant cross burning, one Klansman later said, was intended "just to let the niggers know the war is over and that the Klan is back on the market."

Atlanta had by now become Klan headquarters. The Klan was thought to hold great sway with key Georgia politicians, and its Georgia chapters were said to include many policemen and sheriff's deputies. Yes, the Klan was a secret society, reveling in passwords and cloak-and-dagger ploys, but its real power lay in

the very public fear that it fostered, exemplified by the open secret that the Ku Klux Klan and the law-enforcement establishment were brothers in arms.

Atlanta—the Imperial City of the KKK's Invisible Empire, in Klan jargon—was also home to Stetson Kennedy, a thirty-year-old man with the bloodlines of a Klansman but a temperament that ran opposite. He came from a good southern family which claimed ancestors including two signers of the Declaration of Independence, an officer in the Confederate Army, and John B. Stetson, founder of the famed hat company and the man for whom Stetson University was named.

Stetson Kennedy grew up in a fourteen-room house in Jacksonville, Florida, the youngest of five children. His uncle Brady was a Klansman. But Kennedy would go on to become a self-described “dissident at large,” writing numberless articles and several books that railed against bigotry. He first worked as a folklorist, traveling around Florida to collect old native tales and songs. Years later, when he served as a rare white correspondent for the *Pittsburgh Courier*, the country's largest black newspaper, he wrote under the pseudonym Daddy Mention—after a black folk hero who, as myth told it, could outrun the blast of a sheriff's shotgun.

What drove Kennedy was a hatred of small-mindedness, ignorance, obstructionism, and intimidation—which, in his view, were displayed by no organization more proudly than the Ku Klux Klan. Kennedy saw the Klan as the terrorist arm of the white establishment itself. This struck him as an intractable problem, for a variety of reasons. The Klan was in cahoots with political, business, and law-enforcement leaders. The public was frightened and felt powerless to act against the Klan. And the few anti-hate groups that existed at the time had little leverage or

even information about the Klan. “Almost all of the things written on the subject were editorials, not exposés,” Kennedy would later explain. “The writers were *against* the Klan, all right, but they had precious few inside facts *about* it.”

So Kennedy set out to gather those facts. He would spend years interviewing Klan leaders and sympathizers, sometimes taking advantage of his own background and lineage to pretend that he was on their side of the issues. He also attended public Klan events and, as he would later write, he even set about to infiltrate the Klan in Atlanta.

The Klan Unmasked, Kennedy's memoir of his exploits “inside” the Klan, is in fact more of a novelization than a straight nonfiction account. Kennedy, a folklorist at heart, apparently wanted to put across the most dramatic story possible, and therefore included not only his own anti-Klan activities but those of another man, code-named John Brown. Brown was a union worker and a former Klan official who had changed his ways and offered to infiltrate the Klan. It was John Brown who apparently performed many of the most dramatic and dangerous episodes portrayed in *The Klan Unmasked*—physically attending Klan meetings and other functions in Atlanta—but since Stetson Kennedy was the man who later wrote the book, he rendered Brown's actions as his own.

Regardless, there was a great deal of information to be gleaned from this Brown/Kennedy collaboration. Brown divulged what he was learning at the weekly Klan meetings: the identities of the Klan's local and regional leaders; their upcoming plans; the Klan's current rituals, passwords, and language. It was Klan custom, for instance, to append a *K/* to many words. (Thus would two Klansmen hold a Klonversation in the local Klavern.) The secret Klan

handshake was a left-handed, limp-wristed fish wiggle. When a traveling Klansman wanted to locate brethren in a strange town, he would ask for a "Mr. Ayak"—"Ayak" being code for "Are You a Klansman?" He would hope to hear this response: "Yes, and I also know a Mr. Akai"—code for "A Klansman Am I."

Before long, John Brown was invited to join the Klavaliars, the Klan's secret police and "flog squad." For an infiltrator, this posed a particularly sticky problem: What would happen if he were called upon to inflict violence?

But as it happened, a central tenet of life in the Klan—and of terrorism in general—is that most of the threatened violence never goes beyond the threat stage.

Consider lynching, the Klan's hallmark sign of violence. Here, compiled by the Tuskegee Institute, are the decade-by-decade statistics on the lynching of blacks in the United States:

YEARS	LYNCINGS OF BLACKS
1890-1899	1,111
1900-1909	791
1910-1919	569
1920-1929	281
1930-1939	119
1940-1949	31
1950-1959	6
1960-1969	3

Bear in mind that these figures represent not only lynchings attributed to the Ku Klux Klan but the total number of reported lynchings. The statistics reveal at least three noteworthy facts. The first is the obvious decrease in lynchings over time. The sec-

ond is the absence of a correlation between lynchings and Klan membership: there were actually *more* lynchings of blacks between 1900 and 1909, when the Klan was dormant, than during the 1920s, when the Klan had millions of members—which suggests that the Ku Klux Klan carried out far fewer lynchings than is generally thought.

Third, relative to the size of the black population, lynchings were exceedingly rare. To be sure, one lynching is one too many. But by the turn of the century, lynchings were hardly the everyday occurrence that they are often considered in the public recollection. Compare the 281 victims of lynchings in the 1920s to the number of black infants who were dying at that time as a result of malnutrition, pneumonia, diarrhea, and the like. As of 1920, about 13 out of every 100 black children died in infancy, or roughly 20,000 children each year—compared to 28 people who were lynched in a year. As late as 1940, about 10,000 black infants died each year.

What larger truths do these lynching figures suggest? What does it mean that lynchings were relatively rare and that they fell precipitously over time, even in the face of a boom in Klan membership?

The most compelling explanation is that all those early lynchings *worked*. White racists—whether or not they belonged to the Ku Klux Klan—had through their actions and their rhetoric developed a strong incentive scheme that was terribly clear and terribly frightening. If a black person violated the accepted code of behavior, whether by talking back to a bus driver or daring to try to vote, he knew he might well be punished, perhaps by death.

So it may be that by the mid-1940s, when Stetson Kennedy was

trying to bust up the Klan, it didn't really *need* to use as much violence. Many blacks, having long been told to behave like second-class citizens—or else—simply obliged. One or two lynchings went a long way toward inducing docility among even a large group of people, for people respond strongly to strong incentives. And there are few incentives more powerful than the fear of random violence—which, in essence, is why terrorism is so effective.

But if the Ku Klux Klan of the 1940s wasn't uniformly violent, what was it? The Klan that Stetson Kennedy wrote about was in fact a sorry fraternity of men, most of them poorly educated and with poor prospects, who needed a place to vent—and an excuse for occasionally staying out all night. That their fraternity engaged in quasi-religious chanting and oath taking and hosanna hailing, all of it top secret, made it that much more appealing.

Kennedy also found the Klan to be a slick money-making operation, at least for those near the top of the organization. Klan leaders had any number of revenue sources: thousands of dues-paying rank-and-file members; business owners who hired the Klan to scare off the unions or who paid the Klan protection money; Klan rallies that generated huge cash donations; even the occasional gunrunning or moonshine operation. Then there were rackets like the Klan's Death Benefit Association, which sold insurance policies to Klan members and accepted only cash or personal checks made out to the Grand Dragon himself.

And, even though the Klan may not have been as deadly as generally thought, it was plenty violent and, perhaps worse, had ever greater designs on political influence. Kennedy was therefore eager to damage the Klan in any way he could. When he heard

about Klan plans for a union-busting rally, he fed the information to a union friend. He passed along Klan information to the assistant attorney general of Georgia, an established Klan buster. After researching the Klan's corporate charter, Kennedy wrote to the governor of Georgia suggesting the grounds upon which the charter should be revoked: the Klan had been designated a non-profit, non-political organization, but Kennedy had proof that it was clearly devoted to both profits and politics.

The problem was that most of Kennedy's efforts weren't producing the desired effect. The Klan was so entrenched and broad-based that Kennedy felt as if he were tossing pebbles at a giant. And even if he could somehow damage the Klan in Atlanta, the hundreds of other chapters around the country would go untouched.

Kennedy was supremely frustrated, and out of this frustration was born a new strategy. He had noticed one day a group of young boys playing some kind of spy game in which they exchanged silly secret passwords. It reminded him of the Klan. Wouldn't it be nice, he thought, to get the Klan's passwords and the rest of its secrets into the hands of kids all across the country—and their parents too? What better way to defang a secret society than to make public its most secret information? Instead of futilely attacking the Klan from the outside, what if he could somehow unleash all the secret inside information that John Brown was gathering from the Klan's weekly meetings? Between Brown's inside dope and everything that Kennedy had learned via his own investigations, he probably knew more Klan secrets than the average Klansman.

Kennedy turned to the most powerful mass medium of his day: radio. He began feeding Klan reports to the journalist Drew

Pearson, whose *Washington Merry-Go-Round* program was heard by millions of adults every day, and to the producers of the *Adventures of Superman* show, which reached millions of children each night. He told them about Mr. Ayak and Mr. Akai, and he passed along overheated passages from the Klan's bible, which was called the Kloran. (Kennedy never did learn why a white Christian supremacist group would give its bible essentially the same name as the most holy book of Islam.) He explained the role of Klan officers in any local Klavern: the Klaliff (vice president), Klokard (lecturer), Kludd (chaplain), Kligrapp (secretary), Klabee (treasurer), Kladd (conductor), Klarogo (inner guard), Klexter (outer guard), the Klokann (a five-man investigative committee), and the Klavaliers (whose leader was called Chief Ass Tearer). He spelled out the Klan hierarchy as it proceeded from the local to the national level: an Exalted Cyclops and his twelve Terrors; a Great Titan and his twelve Furies; a Grand Dragon and his nine Hydras; and the Imperial Wizard and his fifteen Genii. And Kennedy passed along all the information and gossip that John Brown gleaned by infiltrating the main Klan chapter, Nathan Bedford Forrest Klavern No. 1, Atlanta, Realm of Georgia.

During the war, the *Adventures of Superman* program had portrayed its hero fighting Hitler and Mussolini and Hirohito. But now he was in need of fresh villains. The Klan was a perfect target, and Superman turned his powers against them. Drew Pearson, an avowed Klan hater, now began giving regular Klan updates on his radio show, and then gave further updates, based on John Brown's inside reports, to show how the original updates were infuriating Klan officials. Pearson's work created an echo chamber that seemed to be driving Grand Dragon Samuel Green crazy. Here is Pearson's radio report from November 17, 1948:

Speaking at Klavern No. 1, Atlanta, Ga., the week after elections, the Grand Dragon wrung his hands and once again cautioned Klansmen to be careful about leaks.

"I have to talk frankly at these meetings," he said, "but I might as well call Drew Pearson before I come to the meeting and give him the information, for {the} next day he gives it out to everybody from coast to coast. The A.P. and U.P. are both calling me about it next morning while I am eating breakfast." . . .

The Grand Dragon spoke about plans for a big cross-burning to be held in Macon, Ga., on Dec. 10. It would be the biggest in Klan history, he said, and he expected 10,000 Klansmen to be there—in their robes. . . .

He added that the Klavalier Klub—the Klan's whipping and flogging department—was now on the job and had plenty of friends on the Atlanta police force.

As the Pearson and *Superman* radio shows played on, and as Stetson Kennedy continued to relay the Klan secrets obtained by John Brown to other broadcast and print outlets, a funny thing happened: attendance at Klan meetings began to fall, as did applications for new membership. Of all the ideas that Kennedy had thought up to fight bigotry, this campaign was easily the cleverest. He turned the Klan's secrecy against itself by making its private information public; he converted heretofore precious knowledge into ammunition for mockery.

Americans who might have been philosophically inclined to oppose the Klan had now been given enough specific information to oppose them more actively, and public sentiment began to shift. Americans who might have been philosophically inclined to embrace the Klan had now been given all sorts of caution against

doing so. Although the Klan would never quite die, especially down south—David Duke, a smooth-talking Klan leader from Louisiana, mounted substantive bids for the U.S. Senate and other offices—it was certainly handicapped, at least in the short term, by Kennedy's brazen dissemination of inside information. While it is impossible to tease out the exact impact that his work had on the Klan, many people have given him a great deal of credit for damaging an institution that was in grave need of being damaged.

This did not come about because Stetson Kennedy was courageous or resolute or unflappable, even though he was all of these. It happened because he understood the raw power of information. The Ku Klux Klan—much like politicians or real-estate agents or stockbrokers—was a group whose power was derived in large part from the fact that it hoarded information. Once that information falls into the wrong hands (or, depending on your point of view, the *right* hands), much of the group's advantage disappears.

In the late 1990s, the price of term life insurance fell dramatically. This posed something of a mystery, for the decline had no obvious cause. Other types of insurance, including health and automobile and homeowners' coverage, were certainly not falling in price. Nor had there been any radical changes among insurance companies, insurance brokers, or the people who buy term life insurance. So what happened?

The Internet happened. In the spring of 1996, Quotesmith.com became the first of several websites that enabled a customer to compare, within seconds, the price of term life insurance sold by dozens of different companies. For such websites, term life insurance was a perfect product. Unlike other forms of insurance—

especially whole life insurance, which is a far more complicated financial instrument—term life policies are fairly homogeneous: any given thirty-year, guaranteed policy for \$1 million is essentially identical to the next. So what really matters is the price. Shopping around for the cheapest policy, a process that had been convoluted and time-consuming, was suddenly made simple. With customers able to instantaneously find the cheapest policy, the more expensive companies had no choice but to lower their prices. Suddenly customers were paying \$1 billion less a year for term life insurance.

It is worth noting that these websites only listed prices; they didn't even sell the policies. So it wasn't really insurance they were peddling. Like Stetson Kennedy, they were dealing in information. (Had the Internet been around when Kennedy was attacking the Klan, he probably would have been blogging his brains out.) To be sure, there are differences between exposing the Ku Klux Klan and exposing insurance companies' high premiums. The Klan trafficked in secret information whose secrecy engendered fear, while insurance prices were less a secret than a set of facts dispensed in a way that made comparisons difficult. But in both instances, the dissemination of the information diluted its power. As Supreme Court Justice Louis D. Brandeis once wrote, "Sunlight is said to be the best of disinfectants."

Information is a beacon, a cudgel, an olive branch, a deterrent—all depending on who wields it and how. Information is so powerful that the *assumption* of information, even if the information does not actually exist, can have a sobering effect. Consider the case of a one-day-old car.

The day that a car is driven off the lot is the worst day in its life, for it instantly loses as much as a quarter of its value. This

might seem absurd, but we know it to be true. A new car that was bought for \$20,000 cannot be resold for more than perhaps \$15,000. Why? Because the only person who might logically want to resell a brand-new car is someone who found the car to be a lemon. So even if the car isn't a lemon, a potential buyer assumes that it is. He assumes that the seller has some information about the car that he, the buyer, does not have—and the seller is punished for this assumed information.

And if the car *is* a lemon? The seller would do well to wait a year to sell it. By then, the suspicion of lemonness will have faded; by then, some people will be selling their perfectly good year-old cars, and the lemon can blend in with them, likely selling for more than it is truly worth.

It is common for one party to a transaction to have better information than another party. In the parlance of economists, such a case is known as an information asymmetry. We accept as a verity of capitalism that someone (usually an expert) knows more than someone else (usually a consumer). But information asymmetries everywhere have in fact been gravely wounded by the Internet.

Information is the currency of the Internet. As a medium, the Internet is brilliantly efficient at shifting information from the hands of those who have it into the hands of those who do not. Often, as in the case of term life insurance prices, the information existed but in a woefully scattered way. (In such instances, the Internet acts like a gigantic horseshoe magnet waved over an endless sea of haystacks, plucking the needle out of each one.) The Internet has accomplished what even the most fervent consumer advocates usually cannot: it has vastly shrunk the gap between the experts and the public.

The Internet has proven particularly fruitful for situations in which a face-to-face encounter with an expert might actually *exacerbate* the problem of asymmetrical information—situations in which an expert uses his informational advantage to make us feel stupid or rushed or cheap or ignoble. Consider a scenario in which your loved one has just died and now the funeral director (who knows that you know next to nothing about his business and are under emotional duress to boot) steers you to the \$8,000 mahogany casket. Or consider the automobile dealership: a salesman does his best to obscure the car's base price under a mountain of add-ons and incentives. Later, however, in the cool-headed calm of your home, you can use the Internet to find out exactly how much the dealer paid the manufacturer for that car. Or you might just log on to www.TributeDirect.com and buy that mahogany casket yourself for only \$3,595, delivered overnight. Unless you decide to spend \$2,300 for "The Last Hole" (a casket with golf scenes) or "Memories of the Hunt" (featuring big-racked bucks and other prey) or one of the much cheaper models that the funeral director somehow failed even to mention.

The Internet, powerful as it is, has hardly slain the beast that is information asymmetry. Consider the corporate scandals of the early 2000s. The crimes committed by Enron included hidden partnerships, disguised debt, and the manipulation of energy markets. Henry Blodget of Merrill Lynch and Jack Grubman of Salomon Smith Barney wrote glowing research reports of companies they knew to be junk. Sam Waksal dumped his ImClone stock when he got early word of a damaging report from the Food and Drug Administration; his friend Martha Stewart also

dumped her shares, then lied about the reason. WorldCom and Global Crossing fabricated billions of dollars in revenues to pump up their stock prices. One group of mutual fund companies let preferred customers trade at preferred prices, and another group was charged with hiding management fees.

Though extraordinarily diverse, these crimes all have a common trait: they were sins of information. Most of them involved an expert, or a gang of experts, promoting false information or hiding true information; in each case the experts were trying to keep the information asymmetry as asymmetrical as possible.

The practitioners of such acts, especially in the realm of high finance, inevitably offer this defense: "Everybody else was doing it." Which may be largely true. One characteristic of information crimes is that very few of them are detected. Unlike street crimes, they do not leave behind a corpse or a broken window. Unlike a bagel criminal—that is, someone who eats one of Paul Feldman's bagels but doesn't pay—an information criminal typically doesn't have someone like Feldman tallying every nickel. For an information crime to reach the surface, something drastic must happen. When it does, the results tend to be pretty revealing. The perpetrators, after all, weren't thinking about their private actions being made public. Consider the "Enron tapes," the secretly recorded conversations of Enron employees that surfaced after the company imploded. During a phone conversation on August 5, 2000, two traders chatted about how a wildfire in California would allow Enron to jack up its electricity prices. "The magical word of the day," one trader said, "is 'Burn, Baby, Burn.'" A few months later, a pair of Enron traders named Kevin and Bob talked about how California officials wanted to make Enron refund the profits of its price gouging.

KEVIN: *They're fucking taking all the money back from you guys? All the money you guys stole from those poor grandmas in California?*

BOB: *Yeah, Grandma Millie, man.*

KEVIN: *Yeah, now she wants her fucking money back for all the power you jammed right up her ass for fucking \$250 a megawatt hour.*

If you were to assume that many experts use their information to your detriment, you'd be right. Experts depend on the fact that you don't have the information they do. Or that you are so befuddled by the complexity of their operation that you wouldn't know what to do with the information if you had it. Or that you are so in awe of their expertise that you wouldn't dare challenge them. If your doctor suggests that you have angioplasty—even though some current research suggests that angioplasty often does little to prevent heart attacks—you aren't likely to think that the doctor is using his informational advantage to make a few thousand dollars for himself or his buddy. But as David Hillis, an interventional cardiologist at the University of Texas Southwestern Medical Center in Dallas, explained to *The New York Times*, a doctor may have the same economic incentives as a car salesman or a funeral director or a mutual fund manager: "If you're an invasive cardiologist and Joe Smith, the local internist, is sending you patients, and if you tell them they don't need the procedure, pretty soon Joe Smith doesn't send patients anymore."

Armed with information, experts can exert a gigantic, if unspoken, leverage: fear. Fear that your children will find you dead on the bathroom floor of a heart attack if you do not have angioplasty

surgery. Fear that a cheap casket will expose your grandmother to a terrible underground fate. Fear that a \$25,000 car will crumple like a toy in an accident, whereas a \$50,000 car will wrap your loved ones in a cocoon of impregnable steel. The fear created by commercial experts may not quite rival the fear created by terrorists like the Ku Klux Klan, but the principle is the same.

Consider a transaction that wouldn't seem, on the surface, to create much fear: selling your house. What's so scary about that? Aside from the fact that selling a house is typically the largest financial transaction in your life, and that you probably have scant experience in real estate, and that you may have an enormous emotional attachment to your house, there are at least two pressing fears: that you will sell the house for far less than it is worth and that you will not be able to sell it at all.

In the first case, you fear setting the price too low; in the second, you fear setting it too high. It is the job of your real-estate agent, of course, to find the golden mean. She is the one with all the information: the inventory of similar houses, the recent sales trends, the tremors of the mortgage market, perhaps even a lead on an interested buyer. You feel fortunate to have such a knowledgeable expert as an ally in this most confounding enterprise.

Too bad she sees things differently. A real-estate agent may see you not so much as an ally but as a mark. Think back to the study cited at the beginning of this book, which measured the difference between the sale prices of homes that belonged to real-estate agents themselves and the houses they sold for their clients. The study found that an agent keeps her own house on the market an average ten extra days, waiting for a better offer, and sells it for over 3 percent more than your house—or \$10,000 on the sale of a \$300,000 house. That's \$10,000 going into her pocket that does

not go into yours, a nifty profit produced by the abuse of information and a keen understanding of incentives. The problem is that the agent only stands to personally gain an additional \$150 by selling your house for \$10,000 more, which isn't much reward for a lot of extra work. So her job is to convince you that a \$300,000 offer is in fact a very good offer, even a generous one, and that only a fool would refuse it.

This can be tricky. The agent does not want to come right out and call you a fool. So she merely implies it—perhaps by telling you about the much bigger, nicer, newer house down the block that has sat unsold for six months. Here is the agent's main weapon: the conversion of information into fear. Consider this true story, related by John Donohue, a law professor who in 2001 was teaching at Stanford University: "I was just about to buy a house on the Stanford campus," he recalls, "and the seller's agent kept telling me what a good deal I was getting because the market was about to zoom. As soon as I signed the purchase contract, he asked me if I would need an agent to sell my previous Stanford house. I told him that I would probably try to sell without an agent, and he replied, 'John, that might work under normal conditions, but with the market tanking now, you really need the help of a broker.' "

Within five minutes, a zooming market had tanked. Such are the marvels that can be conjured by an agent in search of the next deal.

Consider now another true story of a real-estate agent's information abuse. The tale involves K., a close friend of one of this book's authors. K. wanted to buy a house that was listed at \$469,000. He was prepared to offer \$450,000 but he first called the seller's agent and asked her to name the lowest price that she thought the

homeowner might accept. The agent promptly scolded K. "You ought to be ashamed of yourself," she said. "That is clearly a violation of real-estate ethics."

K. apologized. The conversation turned to other, more mundane issues. After ten minutes, as the conversation was ending, the agent told K., "Let me say one last thing. My client is willing to sell this house for a lot less than you might think."

Based on this conversation, K. then offered \$425,000 for the house instead of the \$450,000 he had planned to offer. In the end, the seller accepted \$430,000. Thanks to *his own agent's* intervention, the seller lost at least \$20,000. The agent, meanwhile, only lost \$300—a small price to pay to ensure that she would quickly and easily lock up the sale, which netted her a commission of \$6,450.

So a big part of a real-estate agent's job, it would seem, is to persuade the homeowner to sell for less than he would like while at the same time letting potential buyers know that a house can be bought for less than its listing price. To be sure, there are more subtle means of doing so than coming right out and telling the buyer to bid low. The study of real-estate agents cited above also includes data that reveals how agents convey information through the for-sale ads they write. A phrase like "well maintained," for instance, is as full of meaning to an agent as "Mr. Ayak" was to a Klansman; it means that a house is old but not quite falling down. A savvy buyer will know this (or find out for himself once he sees the house), but to the sixty-five-year-old retiree who is selling his house, "well maintained" might sound like a compliment, which is just what the agent intends.

An analysis of the language used in real-estate ads shows that certain words are powerfully correlated with the final sale price of

a house. This doesn't necessarily mean that labeling a house "well maintained" *causes* it to sell for less than an equivalent house. It does, however, indicate that when a real-estate agent labels a house "well maintained," she may be subtly encouraging a buyer to bid low.

Listed below are ten terms commonly used in real-estate ads. Five of them have a strong positive correlation to the ultimate sale price, and five have a strong negative correlation. Guess which are which.

TEN COMMON REAL-ESTATE AD TERMS

Fantastic
Granite
Spacious
State-of-the-Art
!
Corian
Charming
Maple
Great Neighborhood
Gourmet

A "fantastic" house is surely fantastic enough to warrant a high price, isn't it? What about a "charming" and "spacious" house in a "great neighborhood!"? No, no, no, and no. Here's the breakdown:

FIVE TERMS CORRELATED TO A HIGHER SALE PRICE

Granite
State-of-the-Art

Corian
Maple
Gourmet

FIVE TERMS CORRELATED TO A LOWER SALE PRICE

Fantastic
Spacious
!
Charming
Great Neighborhood

Three of the five terms correlated with a higher sale price are physical descriptions of the house itself: granite, Corian, and maple. As information goes, such terms are specific and straightforward—and therefore pretty useful. If you like granite, you might like the house; but even if you don't, "granite" certainly doesn't connote a fixer-upper. Nor does "gourmet" or "state-of-the-art," both of which seem to tell a buyer that a house is, on some level, truly fantastic.

"Fantastic," meanwhile, is a dangerously ambiguous adjective, as is "charming." Both these words seem to be real-estate agent code for a house that doesn't have many specific attributes worth describing. "Spacious" homes, meanwhile, are often decrepit or impractical. "Great neighborhood" signals a buyer that, well, *this* house isn't very nice but others nearby may be. And an exclamation point in a real-estate ad is bad news for sure, a bid to paper over real shortcomings with false enthusiasm.

If you study the words in ads for a real-estate agent's *own* home, meanwhile, you see that she indeed emphasizes descriptive terms (especially "new," "granite," "maple," and "move-in condition") and

avoids empty adjectives (including "wonderful," "immaculate," and the telltale "!"). Then she patiently waits for the best buyer to come along. She might tell this buyer about a house nearby that just sold for \$25,000 *above* the asking price, or another house that is currently the subject of a bidding war. She is careful to exercise every advantage of the information asymmetry she enjoys.

Does this make her a bad person? That's hard to say, at least hard for *us* to say. The point here is not that real-estate agents are bad people, but that they simply *are* people—and people inevitably respond to incentives. The incentives of the real-estate business, as currently configured, plainly encourage some agents to act against the best interests of their customers.

But like the funeral director and the car salesman and the life-insurance company, the real-estate agent has also seen her advantage eroded by the Internet. After all, anyone selling a home can now get online and gather her own information about sales trends and housing inventory and mortgage rates. The information has been set loose. And recent sales data show the results. Real-estate agents still get a higher price for their own homes than comparable homes owned by their clients, but since the proliferation of real-estate websites, the gap between the two prices has shrunk by a third.

It would be naïve to suppose that people abuse information only when they are acting as experts or as agents of commerce. After all, agents and experts are people too—which suggests that we are likely to abuse information in our personal lives as well, whether by withholding true information or editing the information we choose to put forth. A real-estate agent may wink and

nod when she lists a "well-maintained" house, but we each have our equivalent hedges.

Think about how you describe yourself during a job interview versus how you might describe yourself on a first date. (For even more fun, compare that first-date conversation to a conversation with the same person during your tenth year of marriage.) Or think about how you might present yourself if you were going on national television for the first time. What sort of image would you want to project? Perhaps you want to seem clever or kind or good-looking; presumably you *don't* want to come off as cruel or bigoted. During the heyday of the Ku Klux Klan, its members took pride in publicly disparaging anybody who wasn't a conservative white Christian. But public bigotry has since been vastly curtailed. Even subtle displays of bigotry, if they become public, are now costly. Trent Lott, the majority leader of the U.S. Senate, learned this in 2002 after making a toast at a one hundredth birthday party for Strom Thurmond, his fellow senator and fellow southerner. Lott made a reference in his toast to Thurmond's 1948 campaign for president, which was built on a platform of segregation; Mississippi—Lott's home state—was one of just four states that Thurmond carried. "We're proud of it," Lott told the party-goers. "And if the rest of the country had followed our lead, we wouldn't have had all these problems over all these years either." The implication that Lott was a fan of segregation raised enough of a fury that he was forced to quit his Senate leadership post.

Even if you are a private citizen, you surely wouldn't want to seem bigoted while appearing in public. Might there be a way to test for discrimination in a public setting?

Unlikely as it may seem, the television game show *The Weakest*

Link provides a unique laboratory to study discrimination. An import from the United Kingdom, *The Weakest Link* for a short time became wildly popular in the United States. The game includes eight contestants (or, in a later daytime version, six) who each answer trivia questions and compete for a single cash jackpot. But the player who answers the most questions correctly isn't necessarily the player who advances. After each round, every contestant votes to eliminate one other contestant. A player's trivia-answering ability is presumably the only worthwhile factor to consider; race, gender, and age wouldn't seem to matter. But do they? By measuring a contestant's actual votes against the votes that would truly best serve his self-interest, it's possible to tell if discrimination is at play.

The voting strategy changes as the game progresses. In the first several rounds, it makes sense to eliminate bad players since the jackpot grows only when correct answers are given. In later rounds, the strategic incentives are flipped. The value of building the jackpot is now outweighed by each contestant's desire to win the jackpot. It's easier to do that if you eliminate the other good players. So, roughly speaking, the typical contestant will vote to eliminate the worse players in the early rounds and the better players in the later rounds.

The key to measuring the *Weakest Link* voting data is to tease out a contestant's playing ability from his race, gender, and age. If a young black man answers a lot of questions correctly but is voted off early, discrimination would seem to be a factor. Meanwhile, if an elderly white woman doesn't answer a single question correctly and is still not voted off, some sort of discriminatory favoritism would seem to be at play.

Again, keep in mind that all of this is happening on camera. A

contestant knows that his friends, family, and co-workers—along with a few million strangers—are watching. So who, if anyone, is discriminated against on *The Weakest Link*?

Not, as it turns out, blacks. An analysis of more than 160 episodes reveals that black contestants, in both the early and late rounds of the game, are eliminated at a rate commensurate with their trivia-answering abilities. The same is true for female contestants. In a way, neither of these findings is so surprising. Two of the most potent social campaigns of the past half-century were the civil rights movement and the feminist movement, which demonized discrimination against blacks and women, respectively.

So perhaps, you say hopefully, discrimination was practically eradicated during the twentieth century, like polio.

Or more likely, it has become so unfashionable to discriminate against certain groups that all but the most insensitive people take pains to at least *appear* fair-minded, at least in public. This hardly means that discrimination itself has ended—only that people are embarrassed to show it. How might you determine whether the lack of discrimination against blacks and women represents a true absence or just a charade? The answer can be found by looking at other groups that society doesn't protect as well. Indeed, the *Weakest Link* voting data do indicate two kinds of contestants who *are* consistently discriminated against: the elderly and Latinos.

Among economists, there are two leading theories of discrimination. Interestingly, elderly *Weakest Link* contestants seem to suffer from one type, while Latinos suffer the other. The first type is called taste-based discrimination, which means that one person discriminates simply because he prefers to not interact with a particular type of other person. In the second type, known as

information-based discrimination, one person believes that another type of person has poor skills, and acts accordingly.

On *The Weakest Link*, Latinos suffer information-based discrimination. Other contestants seem to view the Latinos as poor players, even when they are not. This perception translates into Latinos' being eliminated in the early rounds even if they are doing well and *not* being eliminated in the later rounds, when other contestants want to keep the Latinos around to weaken the field.

Elderly players, meanwhile, are victims of taste-based discrimination: in the early rounds *and* late rounds, they are eliminated far out of proportion to their skills. It seems as if the other contestants—this is a show on which the average age is thirty-four—simply don't want the older players around.

It's quite possible that a typical *Weakest Link* contestant isn't even cognizant of his discrimination toward Latinos and the elderly (or, in the case of blacks and women, his *lack* of discrimination). He is bound to be nervous, after all, and excited, playing a fast-moving game under the glare of television lights. Which naturally suggests another question: how might that same person express his preferences—and reveal information about himself—in the privacy of his home?

In a given year, some forty million Americans swap intimate truths about themselves with complete strangers. It all happens on Internet dating sites. Some of them, like Match.com, eHarmony.com, and Yahoo! Personals, appeal to a broad audience. Others cater to more specific tastes: ChristianSingles.com, JDate.com, LatinMatcher.com, BlackSinglesConnection.com, CountryWesternSingles.com, USMilitarySingles.com, OverweightDate.com, and

Gay.com. Dating websites are the most successful subscription-based business on the Internet.

Each site operates a bit differently, but the gist is this: You compose a personal ad about yourself that typically includes a photo, vital statistics, your income range, level of education, likes and dislikes, and so on. If the ad catches someone's fancy, that someone will e-mail you and perhaps arrange a date. On many sites, you also specify your dating aims: "long-term relationship," "a casual lover," or "just looking."

So there are two massive layers of data to be mined here: the information that people include in their ads and the level of response gleaned by any particular ad. Each layer of the data can be asked its own question. In the case of the ads, how forthright (and honest) are people when it comes to sharing their personal information? And in the case of the responses, what kind of information in personal ads is considered the most (and least) desirable?

Two economists and a psychologist recently banded together to address these questions. Günter J. Hitsch, Ali Hortaçsu, and Dan Ariely analyzed the data from one of the mainstream dating sites, focusing on more than 20,000 active users, half in Boston and half in San Diego. Fifty-six percent of the users were men, and the median age range for all users was twenty-one to thirty-five. Although they represented an adequate racial mix to reach some conclusions about race, they were predominantly white.

They were also a lot richer, taller, skinnier, and better-looking than average. That, at least, is what they wrote about themselves. More than 4 percent of the online daters claimed to earn more than \$200,000 a year, whereas fewer than 1 percent of typical Internet users actually earn that much, suggesting that three of the four big earners were exaggerating. Male and female users typi-

cally reported that they are about an inch taller than the national average. As for weight, the men were in line with the national average, but the women typically said they weighed about twenty pounds less than the national average.

Most impressively, fully 72 percent of the women claimed "above average" looks, including 24 percent claiming "very good looks." The online men too were gorgeous: 68 percent called themselves "above average," including 19 percent with "very good looks." This leaves only about 30 percent of the users with "average" looks, including a paltry 1 percent with "less than average" looks—which suggests that the typical online dater is either a fabulist, a narcissist, or simply resistant to the meaning of "average." (Or perhaps they are all just pragmatists: as any real-estate agent knows, the typical house isn't "charming" or "fantastic," but unless you say it is, no one will even bother to take a look.) Twenty-eight percent of the women on the site said they were blond, a number far beyond the national average, which indicates a lot of dyeing, or lying, or both.

Some users, meanwhile, were bracingly honest. Seven percent of the men conceded that they were married, with a significant minority of these men reporting that they were "happily married." But the fact that they were honest doesn't mean they were rash. Of the 243 "happily married" men in the sample, only 12 chose to post a picture of themselves. The reward of gaining a mistress was evidently outweighed by the risk of having your wife discover your personal ad. ("And what were *you* doing on that website?" the husband might bluster, undoubtedly to little avail.)

Of the many ways to fail on a dating website, not posting a photo of yourself is perhaps the most certain. (Not that the photo necessarily *is* a photo of yourself; it may well be some better-

looking stranger, but such deception would obviously backfire in time.) A man who does not include his photo gets only 60 percent of the volume of e-mail response of a man who does; a woman who doesn't include her photo gets only 24 percent as much. A low-income, poorly educated, unhappily employed, not very attractive, slightly overweight, and balding man who posts his photo stands a better chance of gleaning some e-mails than a man who says he makes \$200,000 and is deadly handsome but doesn't post a photo. There are plenty of reasons someone might not post a photo—he's technically challenged or is ashamed of being spotted by friends or is just plain unattractive—but as in the case of a brand-new car with a For Sale sign, prospective customers will assume he's got something seriously wrong under the hood.

Getting a date is hard enough as it is. Fifty-six percent of the men who post ads don't receive even one e-mail; 21 percent of the women don't get a single response. The traits that do draw a big response, meanwhile, will not be a big surprise to anyone with even a passing knowledge of the sexes. In fact, the preferences expressed by online daters fit snugly with the most common stereotypes about men and women.

For instance, men who say they want a long-term relationship do much better than men looking for an occasional lover. But women looking for an occasional lover do great. For men, a woman's looks are of paramount importance. For women, a man's income is terribly important. The richer a man is, the more e-mails he receives. But a woman's income appeal is a bell-shaped curve: men do not want to date *low*-earning women, but once a woman starts earning too much, they seem to be scared off. Women are eager to date military men, policemen, and firemen (possibly the result of a 9/11 Effect, like the higher payments to Paul Feldman's

bagel business), along with lawyers and doctors; they generally avoid men with manufacturing jobs. For men, being short is a big disadvantage (which is probably why so many lie about it), but weight doesn't much matter. For women, being overweight is deadly (which is probably why *they* lie). For a man, having red hair or curly hair is a downer, as is "bald with a fringe"—but a shaved head is okay. For a woman, salt-and-pepper hair is bad, while blond hair is, not surprisingly, very good.

In addition to all the information about income, education, and looks, men and women on the dating site listed their race. They were also asked to indicate a preference regarding the race of their potential dates. The two preferences were "the same as mine" or "it doesn't matter." Like the *Weakest Link* contestants, the website users were now publicly declaring how they felt about people who didn't look like them. They would reveal their *actual* preferences later, in confidential e-mails to the people they wanted to date.

Roughly half of the white women on the site and 80 percent of the white men declared that race didn't matter to them. But the response data tell a different story. The white men who said that race didn't matter sent 90 percent of their e-mail queries to white women. The white women who said race didn't matter sent about 97 percent of their e-mail queries to white men. This means that an Asian man who is good-looking, rich, and well educated will receive fewer than 25 percent as many e-mails from white women as a white man with the same qualifications would receive; similarly, black and Latino men receive about half as many e-mails from white women as they would if they were white.

Is it possible that race really didn't matter for these white women and men and that they simply never happened to browse a non-white date that interested them? Or, more likely, did they say that

race didn't matter because they wanted to come across—especially to potential mates of their own race—as open-minded?

The gulf between the information we publicly proclaim and the information we know to be true is often vast. (Or, put a more familiar way: we say one thing and do another.) This can be seen in personal relationships, in commercial transactions, and of course in politics.

By now we are fully accustomed to the false public proclamations of politicians themselves. But voters lie too. Consider an election between a black candidate and a white candidate. Might white voters lie to pollsters, claiming they will vote for the black candidate in order to appear more color-blind than they actually are? Apparently so. In New York City's 1989 mayoral race between David Dinkins (a black candidate) and Rudolph Giuliani (who is white), Dinkins won by only a few points. Although Dinkins became the city's first black mayor, his slender margin of victory came as a surprise, for pre-election polls showed Dinkins winning by nearly 15 points. When the white supremacist David Duke ran for the U.S. Senate in 1990, he garnered nearly 20 percent more of the vote than pre-election polls had projected, an indication that thousands of Louisiana voters did not want to admit their preference for a candidate with racist views.

Duke, though he never won the high political office he often sought, proved himself a master of information abuse. As Grand Wizard of the Knights of the Ku Klux Klan, he was able to compile a mailing list of thousands of rank-and-file Klansmen and other supporters who would eventually become his political base. Not content to use the list only for himself, he sold it for \$150,000 to the governor of Louisiana. Years later, Duke would once again

use the list himself, letting his supporters know that he'd fallen on hard times and needed their donations. In this way Duke was able to raise hundreds of thousands of dollars for his continuing work in the field of white supremacy. He had explained to his supporters in a letter that he was so broke that the bank was trying to repossess his house.

In truth, Duke had already sold his house for a solid profit. (It isn't known whether he used a real-estate agent.) And most of the money he raised from his supporters was being used not to promote any white supremacist cause but rather to satisfy Duke's gambling habit. It was a sweet little scam he was running—until he was arrested and sent to federal prison in Big Spring, Texas.