

BEAN BALL

The Designated Hitter and Moral Hazard

Batters in the American League (AL) of Major League Baseball have long faced the unpleasant knowledge that they are 15 percent more likely to be hit by a pitch than their National League (NL) counterparts.

A virtual cottage industry has sprouted to explain the AL's rate of hit batsmen. The most accepted conclusion is that the introduction of the designated hitter (DH) in the AL in 1973 created a moral hazard problem. That is, pitchers in the NL face a higher price for plunking batters because they, as batters themselves, can face retaliation for their errant pitches. Meanwhile, in the AL, pitchers almost never step into the batter's box, since designated hitters take their place at the plate. The consequences of a brush-back pitch are far less severe in the AL than in the NL.

Another theory posits that NL pitchers go out of their way *not* to hit their pitching counterparts because they're such awful swingers; hitting a pitcher is a waste because it's so easy to get them out, statistically speaking.

A recent contribution to the literature comes from John Charles Bradbury and Douglas Drinen, professors at Sewanee: The University of the South.

Overall, they agree that much of the difference between the two leagues is attributable to AL pitchers' lack of fear of retaliation. But Bradbury and Drinen plow deeper than any others have ventured: They attempt an explanation for the narrowing hit-batsmen gap during the 1990s — when, counterintuitively, in four years there were more batters sent diving for the turf in the NL than the AL. Their answer is twofold.

First, league expansion diluted the talent level in the NL more than in the AL, which probably meant that more batters were unintentionally hit by wild, inexperienced pitchers. Second, there was the 1994 establishment of the “double-warning” rule, requiring umpires to warn both teams of consequences after an obvious bean ball or attempt. That matters because it “significantly raises the cost of retaliation. If a pitcher hits a batter, he knows that retaliation will be very costly for the other team.” Thus, NL pitchers have let themselves get a little wilder since 1994.

And maybe now, for a few years at least, baseball wonks can sleep soundly at night, content in the knowl-



Sammy Sosa of the Chicago Cubs recoils as a fastball shatters his helmet in 2003. Sosa now plays for the Baltimore Orioles.

edge that the mystery of the hit-batsmen differential has been explained. — DOUG CAMPBELL

LAND OF THE ECONOMICALLY FREE

Virginia Ranks Third in New Study

According to a new study released by the Pacific Research Institute (PRI), a market-oriented think tank based in San Francisco, Virginia stands as a “citadel of economic freedom in the South.” The 2004 *U.S. Economic Freedom Index* ranks Virginia as the third most economically free state in the United States. No other Fifth District state placed in the

top 10: South Carolina (13), North Carolina (24), Maryland (27), and West Virginia (32).

Sally Pipes, president and CEO of PRI, describes the *Economic Freedom Index* as an “important tool, grounded in rigorous statistical analysis, for measuring how friendly (or unfriendly) each state government is toward free enterprise and consumer choice.” PRI’s study of individual states is modeled loosely after existing research conducted on an international scale, such as the *Economic Freedom of the World* and the *Economic Freedom of North America* reports, published by the Fraser Institute and others.

To calculate index values, more than 140 variables were considered for each state, including everything from tax rates, state spending, and income redistribution, to occupational licensing, environmental regulations, and wage laws. Ultimately, a statistical index linked to migration was adopted to rank states in terms of economic freedom, because, the report explains, “migration is the purest expression of individuals responding to differences in freedom ... People want to be free: they strive and work to be free, and search out locations, governments, and situations where freedom reigns.”

The study’s authors, Lawrence J. McQuillan, director of Business and Economic Studies at PRI, and Robert E. McCormick and Ying Huang of Clemson University’s economics department, hope that the new *Index* will persuade people that there is a link between economic freedom and economic prosperity. As McQuillan says, “It affects their bottom line, their pocketbooks — and it’s an appropriate issue for policymakers to focus on.”

According to the report, “a 10 percent improvement in a state’s economic freedom score yields, on average, about a half percent increase in annual income per capita.” Or, to

put it another way, the average national “oppression tax” per year is 4.42 percent of an individual’s income, and the average money amount lost from restrictions on economic freedom per year is \$1,161 — adding up to almost \$90,000 over a 40-year working life.

Still, the *Index*’s findings reveal several surprises. Kansas, a relatively low-profile state, secured the top spot, while California and New York — states renowned for being hubs of commerce and activity — trailed at the rear, in 49th and 50th place, respectively. These results seem to suggest that while economic freedom is important, it is not the only — or even the most significant aspect — in determining the success of a state’s economy. — JENNIFER WANG

FACT OR FICTION?

Looking for the Social Security Trust Fund

News flash: Not only does the much-talked-about “Social Security trust fund” exist, it is physically located in the Fifth District. But it’s not in Washington, D.C., as you might suppose. It’s in West Virginia.

A spokesman at the U.S. Bureau of the Public Debt sounds a bit weary talking about it. Ever since President George Bush made reforming Social Security a centerpiece of his second-term agenda, there’s been a surge in interest about the fund. Media calls have been incessant.

The Bureau of the Public Debt is the government arm that actually does the work of investing tax receipts, issuing securities, and redeeming those securities at the request of the Social Security Administration. And all that happens in the bureau’s operations center in Parkersburg, W.Va.

To call it a “fund” is a bit misleading, the spokesman admits. It consists of 215 sheets of paper representing securities held by the Old Age and Survivors Insurance and Disability Insurance funds. This winter, those paper instruments together symbolized \$1.7 trillion in securities issued to the trust fund. As such, they’re not really the sort of cash holdings you might intuitively think of when hearing about the Social Security trust fund. They’re IOUs, but given that they’re backed by the federal government, many people claim they’re pretty much as good as real money.

The trust fund’s paper certificates are locked in a fireproof safe — which looks more like a filing cabinet than a safe — in the Bureau of the Public Debt’s operations center at the H.J. Hintgen Building in Parkersburg. Not that the safe gets a whole lot of attention. It sits outside somebody’s office. The papers themselves are merely outputs from a standard office laser printer, signed by the division director for federal investments.

The reason the 215 pieces of paper exist is because of 1994 legislation that established the Social Security Administration as an independent agency. The law required the Treasury Department, which runs the Bureau of the Public Debt, to issue paper instruments to represent the trust fund’s assets.

In the debate over overhauling Social Security, the significance of the fund has gained new importance. Official projections say that by 2017, the government will have to start tapping into the fund to fulfill its payment obligations to retirees. By 2041, the funds will have been used up. And presumably, the safe in Parkersburg will no longer contain those pieces of paper now ostensibly worth trillions of dollars. — DOUG CAMPBELL

ONLINE BANKING

Customer Satisfaction Rises, But Privacy Concerns Remain

Who would have thought 10 years ago that paying bills and monitoring account balances would be only a mouse-click away? It’s taken a while, but more and more banking customers have moved from standing in line at the bank to doing business online in their home.

Forbes.com and the consulting firm ForeSee Results recently teamed up to release their second online banking study. They wanted to find out how comfortable customers are in conducting transactions online, and how banks might be able to increase the size of this market.

Overall, the report showed an increase in customer satisfaction, with a rise of 5.5 percent since the previous summer 2003 study. This is important because, according to the study, “satisfied” online customers are almost 40 percent more likely to purchase additional services. The rise in satisfaction might be attributable in part to effective marketing.

In general, customers are happier because online banking is becoming easier. The site needs to be relatively painless to navigate in order for customers to easily set up bill payment options, for instance. The reward for banks that create such sites is that satisfied customers tend to feel more “loyal” toward them. Also, online banking sites are often cheaper to maintain than traditional bricks-and-mortar banking establishments.

Though customer satisfaction has risen since the first study two years ago, certain challenges remain. Some sites remain stubbornly user-unfriendly. Privacy also remains a big obstacle with potential online bankers, who worry about the security of their personal information. Existing customers, however, feel comfortable with how banks manage confidential information. Improved education of the public on these concerns may help, the study says. In addition, banks must compete with other third-party payment outlets for the business of more savvy online consumers. Three-quarters of respondents reported paying bills online through a source other than their own bank.

In the end, the greatest challenge facing banks is to get more potential customers online, and then keep them there. Those people who feel comfortable doing business on the Internet have generally availed themselves of online banking opportunities. But this group makes up only 25 percent of all banking customers. That leaves a huge untapped market for banks to serve. — JULIA R. TAYLOR