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Fred kahn at 100: A brief look back at the man and the principles he championed

1. Introduction

On Oct. 17 of this year, Fred Kahn would have turned 100. While he is no longer with us,[1] the principles he championed endure and it is only fitting that we take a moment to pay homage to this Renaissance man. Fred wore many hats throughout the course of his career, and they all came together in a magical way to pave the way for the major contributions that he made to economic regulation and competition policy.[2] He possessed a unique ability to communicate complex ideas in terms policymakers could readily understand. On this score and on so many others he was without peer.

I corresponded with Fred for many years prior to first meeting him in person in the summer of 1996. We were both slated to testify in a state telecommunications proceeding. Fred arrived the day before the hearing to attend a luncheon. I was in a conversation with the lead counsel in the case when Fred first appeared. He would have been hard to miss. He was wearing a powder blue sport coat of the sort one might don for a championship shuffleboard tournament. The attorney took one look at him and gasped, *"*Oh no, I hope he does not wear that godawful coat to the hearing tomorrow.*"* I just chuckled and remarked, *"*That is Fred Kahn. Do you really think it matters what he wears to the hearing?*"*

The next day, just as the attorney had feared, Fred showed up at the hearing in his powder blue sport coat. He took the witness stand and was immediately pummeled with questions about cross subsidies, price elasticities, and universal service. At one point, Fred was asked about the effectiveness of policies governing cross subsidization. He immediately cut to the chase by zeroing in on the inefficiencies associated with untargeted subsidies in rural areas. *"*I have no animus against Robert Redford, I regard him as a very attractive man, to wit, but I mean why should people in Vail, Colorado, have subsidized telephone rates?*"*[3] The Commissioners erupted in spontaneous laughter. The great communicator had driven his point home and brought down the house in the process. . the powder blue sport coat be damned!

2. Economist, regulator and part-time actor

Fred Kahn laid claim to being the last surviving student of the great economist Joseph Schumpeter.[4] Schumpeter aspired to be a great economist, a great horseman, and a great lover.[5] While he readily conceded that he had only achieved two of the three, no one knows for sure which two.[6] In similar fashion, Fred Kahn aspired to be a great economist, a great regulator, and a great actor. Like his mentor, he realized two of the three, and in this case we know which two.

Professor Kahn's contributions to the economics literature are extraordinary by any measure. These are memorialized in a curriculum vitae that runs more than 30 pages. His publication record includes over 130 articles—many in the economics profession's most prestigious journals. In fact, of Professor Kahn's first 10 publications, seven appeared in the *American Economic Review*, the *Journal of Political Economy,* or the *Quarterly Journal of Economics*. In addition, he published eight books, including his world-renowned, two-volume treatise, *The Economics of Regulation*—still a hallowed reference in the field almost 50 years after it first appeared. Perhaps we should have expected nothing less from someone who graduated *summa cum laude* and first in his class from New York University—at the age of 18!

Fred was never content simply to "preach" from the Ivory tower and let others do the heavy lifting. He took several leaves from academia to preside over the implementation of the economic principles that he championed.[7] These include such high-level government appointments as

[1] Robert D. Hershey Jr., "Alfred E. Kahn Dies at 93; Prime Mover of Airline Deregulation," The New York Times, December 28, 2010. The URL for Professor Kahn's obituary is available at http://www.nytimes.com/2010/12/29/business/29kahn.html

[2] See the excellent "appreciation" by Joshua Z. Rokach, "What Would Alfred Kahn Do?" The Electricity Journal, March 2011 at 89–91.

[3] Testimony of Alfred E. Kahn before the Kansas Corporate Commission in Docket No. 190–492-U on Behalf of Southwestern Bell Telephone Company, August 1996 (Hearing Transcripts) at 2055.

[4] In fact, according to Kahn biographer, Thomas McCraw, Fred indicated that "Schumpeter was the de facto director of his dissertation during the 1940s." Private correspondence, December 28, 2008. This is confirmed in an undated letter from Schumpeter to Kahn that provides detailed comments on the individual chapters of his dissertation. Letter on file with the author.

[5] Thomas K. McCraw, PROPHET OF INNOVATION, Cambridge MA: Harvard University Press, 2007 at 4.

[6] He did, however, allude to the fact that "things were not going well with the horses." Id.

[7] See Thomas K. McCraw, PROPHETS OF REGULATION, Cambridge MA: Harvard University Press, 1984, Chapter 7.

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chairman of the New York Public Service Commission, economic advisor to the president (Carter) on inflation, chairman of the Council on Wage and Price Stability and chairman of the Civil Aeronautics Board (CAB), among others.

As chairman of the CAB, he led the charge to deregulate the nation's airlines. The annual welfare gains associated with airline deregulation are estimated to exceed $25 billion (in current dollars).[8] Of course, Fred would not want you to forget that airline deregulation occurred when a Democrat occupied the White House. It is widely known that Professor Kahn felt that he was better suited to head the Federal Communications Commission rather than the CAB, once remarking that "I really don't know one plane from another. To me they are all marginal costs with wings.[9] But President Carter had other plans for him and his leadership of the CAB through the turbulent political economy of deregulation is now legendary.

More than a decade ago, when the lights literally went out in California, the U.S. Congress once again turned to Professor Kahn to help it understand the source of this market failure. He was no stranger to the U.S. Congress, having testified before the Senate or the House no less than 70 times previously. Fred Kahn has been the "great communicator" of economic principles for more than 60 years and he continued to advise Fortune 500 corporations and governments throughout the world until the final few weeks of his life. He had been a regular commentator on the *Nightly Business Report*.

In addition to his stellar record of economic research and public service, Fred Kahn was first and foremost a teacher and mentor to countless students and young economists just beginning their professional careers. I am fortunate to count myself in those ranks. More than 30 years ago, when I was first starting out, I had written a paper on a public utility's obligation to serve as the carrier-of-last-resort for its franchised service territory.[10] A colleague encouraged me to send this paper to Professor Kahn, who had written extensively on this topic.[11] I scoffed at this suggestion, contending that "I might as well send this paper into a black hole" as send it to someone of Kahn's stature—a person I believed to be far too busy and important to take the time to read an unsolicited manuscript from a junior economist he had never met. But my colleague was persistent and the paper was duly sent to Professor Kahn.

Late one afternoon, about two weeks later, the postman for our building appeared at the door of my office. He informed me that he had a letter for me from Ithaca, N.Y., from someone named "Fred Kahn." This postman was a bit of a surly fellow, not unlike the Newman character on *Seinfeld*. When I excitedly reached for the letter, he immediately pulled it back, announcing with an impish grin that 17 cents in postage was due and I must pay this sum before taking possession of the letter. This was a bit of a problem, as I had no money with me and my colleagues had left for the day. Yet the postman refused to release the letter. I can honestly tell you that this is as close as I have ever come to assaulting an employee of the federal government.

Finally, after scrounging around in my desk for an interminable amount of time I was able to cobble together the obligatory 17 cents. The counsel that Professor Kahn provided to me in that (several-page) letter led to a substantially revised draft of my paper, my first major publication in economics, and a professional association and friendship that has been one of the great treasures of my life. I still have that letter and to this day it remains the best 17 cents that I ever spent.

In the winter of 2005, I invited Fred to campus to give a university-wide address[12]; it was standing room only. Fred was characteristically brilliant, charming, and funny. He began his talk by recounting the various positions he held in and outside of academia and what he had learned over the course of his journey. He reflected upon his time as Dean of Arts and Sciences at Cornell and how he quickly realized that a "Dean is to the faculty what a fire hydrant is to a dog." The audience roared approvingly with thunderous laughter and applause − everyone, that is, except our dean, who, as luck would have it, happened to be seated next to me − the miscreant responsible for bringing Professor Kahn to campus. Fred was unapologetic; he always called them the way he saw them. . and thank goodness for tenure!

There is more you should know about Professor Kahn. Since 1982 he served as a consultant to the American Heritage Dictionary (the right words were always more important than the right equations to Fred). In his spare time, Fred was a fan of theatrical comedy and not just as a spectator. With a preference for Gilbert and Sullivan, he appeared in countless plays on the Cornell campus and surrounding areas—word has it to critical acclaim. He could recite line and verse from a seemingly uncountable number of plays, songs, and poems, and these were frequently interjected into his policy counsel.

Lastly, Fred was a self-proclaimed and thoroughly unrepentant chocaholic. I always thought the chocolate was necessary to fuel his boundless intellectual energy. Each holiday season I would set out in search of some chocolate delicacy to send his way. This was always followed up with a gracious note or telephone call in which Fred supplied a detailed analysis comparing last year's example with the current vintage. And, of course, there was always enthusiastic discussion of the latest economic issue that had piqued his interest. Oh, how I miss those conversations. But good memories and sound principles sustain us, and this leads me to the penultimate section of this essay.

3. The Kahn principles

In all the industries in which he participated, including commercial aviation, electric power, telecommunications, and transportation, Professor Kahn relied upon a core set of economic principles to inform his policy analysis. These principles are listed below, followed by a brief discussion of each.

[8] The annual welfare gains associated with airline deregulation were estimated to be on the order of $6 billion annually in 1977. Steve A. Morrison and Clifford Winston, THE ECONOMIC EFFECTS OF AIRLINE DEREGULATION, Washington D.C.: Brookings, 1986. It is estimated that an additional $4 billion in welfare gains are attributable to deregulation of selected international routes with an additional $4 billion possible should deregulation expand to additional routes. Clifford Winston and Jia Yan, "Open Skies: Estimating Travelers' Benefits from Free Trade in Airline Services," American Economic Journal: Economic Policy, Vol. 7(2), 2015 at 370–414.

[9] McCraw, 1984 Op. Cit. at 224.

[10] Dennis L. Weisman, "Default Capacity Tariffs: Smoothing the Transitional Regulatory Asymmetries in The Telecommunications Market," Yale Journal on Regulation, Vol. 5(1), Winter 1988 at 149–178.

[11] Alfred E. Kahn, "The Tyranny of Small Decisions: Market Failures, Imperfections and the Limits of Economics," Kyklos, Vol. XIX, January 1966 at 23–47; and Alfred E. Kahn, THE ECONOMICS OF REGULATION, Vol II. Cambridge MA: The MIT Press, 1988 (First Published in 1971), at 236-41. For a more recent discussion of this problem, See Dennis L. Weisman, "Are the Electric Utilities Aboard the 'Train to Ithaca'?" The Electricity Journal, Vol. 30 (5), June 2017, 6–9.

[12] Alfred E. Kahn, Economic Deregulation, 1975 to 2005: the Airlines and Telecommunications, Kansas State University, Manhattan, KS, February 15, 2005. This section is based, in part, on my introduction of Professor Kahn at this event.