

The Church of Scionology (excerpt)

Freakonomics
06/03/2011 | 11:21 am

ANNOUNCER: From WNYC and APM: American Public Media: This is Freakonomics Radio. Here's your host, Stephen Dubner.

DUBNER: Today, we're visiting the Church of Scionology. We worship the idea of handing off a family business to the next generation. But is this heresy to economists? You can pick anyone to run your company. So why, instead of tapping that big talent pool, do you want to draw from your tiny little gene pool instead? The economists who study family firms say that you destroy value when you hand off the business to your blood relative.

Most people agree that Warren Buffett is a pretty good businessman. Like fifty billion dollars worth of pretty good. Buffett's not a big fan of inheritance. Thinks when you give all your money to the next generation, you create a lazy, over-entitled aristocracy. As he put it once, it's like "choosing the 2020 Olympic team by picking the eldest sons of the gold-medal winners in the 2000 Olympics."

Matt McGUE: *I know that's the analogy that, that I guess, Buffett made is with athletic ability.*

DUBNER: That's Matt McGue. He's a behavioral geneticist at the University of Minnesota.

McGUE: *Yeah, I mean geneticists have for a long time used this statistic called heritability, which can range from zero percent to one hundred percent. And what heritability seeks to estimate is the percentage of individual differences in a trait that can be attributed to inherited genetic factors. So for example the heritability of height is on the order of eighty to ninety-percent.*

DUBNER: So traits that are important for something like sports are pretty heritable. Consider the son of a Major League Baseball player. You want to know how much more likely it is that he'll also play in the majors compared to the average kid? Eight hundred times more likely. Not eight times, eight hundred. So you probably could field a good Olympic team if you could get your hands on Michael Phelps's kids, and Shannon Miller's and Apolo Anton Ohno's kids. But running a company isn't the same thing as running the bases. Here's McGue again:

McGUE: *Other traits are much less heritable. Most behavioral traits would be a lot less heritable than height. So personality characteristics, maybe the heritability estimate would be on the order of forty to fifty-percent. IQ might be higher. Might be fifty, sixty, some would argue seventy-percent. Do you know the story of the Vanderbilts?*

The original Vanderbilt, at least the original rich one made his money in the railroad business in the 19th century. And he actually, he not only wanted to build a railroad empire, he also wanted to build a family dynasty. He actually, that was his goal, so that when he passed, he wanted his family name to remain very famous. And he decided, he ended up being the richest man in the world at the time. But what he decided to do is he gave ninety-five percent of his wealth to one of his sons. Now the son actually did pretty well, that first son. But after that the wealth started to really digress. To where today, if you think about it, how many leaders of industry do you know named Vanderbilt? You don't know any. Even though that was his goal a hundred and fifty years ago, to establish this family dynasty. You don't know of any famous Vanderbilts in the railroad business or anything. What ended up happening—in fact there are two family members wrote memoirs about this, about how the Vanderbilt wealth had actually created dysfunction within various lines of the family because what ends up happening is that the talent gets diluted over generations, just like our height will get diluted. If you look at the decedents of seven foot tall men, eventually they are not going to be that tall. So if you look at the decedents of extraordinarily talented individuals over time it just gets diluted by intermixing with everyone else.

DUBNER: So, sad to say, it looks like there is no CEO gene. But just try telling that to the CEO of a family business. Like, maybe another brewery? I'll bet you've heard of this one.

[INTERCOM: *Ladies and gentlemen welcome to Anheuser- Busch. If you are currently waiting for the twelve-fifteen tour this is the call. The tour is now gathering in the tour assembly area located directly across from the gift shop. Once again, this is the call for the twelve-fifteen tour.*]

[TOUR GUIDE: *The moment you cross the Mississippi River into St. Louis, Missouri, one of the first things you'll see is a giant beacon of an eagle with the word Budweiser above it. And one of the first things you'll see is Busch Stadium. This city has attached its image, its identity and its history to the Busch family and to Anheuser-Busch beer.*]

[TOUR SOUND: *Born in Germany, Adolphus Busch came to America in 1857...*]