

# BOOKS

## **Economics as Ideology: Keynes, Laski, Hayek, and the Creation of Contemporary Politics**

by Kenneth R. Hoover

Rowman and Littlefield • 2003 • 328 pages  
• \$75.00 hardcover; \$27.95 paperback

*Reviewed by Richard M. Ebeling*

**W**hy do people hold the views that they do, including and especially their political and ideological views? That question has generated a vast library of what has generally come to be called “psychobabble,” wherein the author attempts to “deconstruct” his biographical subject and demonstrate why the subject’s upbringing and social circumstances made him the way he was, including his ideas about the social, political, and economic world in which he lived.

A recent contribution to this genre is Kenneth R. Hoover’s *Economics as Ideology*. A political science professor at Western Washington University, Hoover wants to find out what made Harold Laski a socialist, F. A. Hayek a proponent of free-market liberalism, and John Maynard Keynes, well, a Keynesian.

Laski was one of the most prominent and influential advocates of socialism in Great Britain in the decades from World War I to the early 1950s. His writings and political activities helped move his country in the direction of central planning and the welfare state. Hoover concludes that Laski’s ideology and politics were driven by a falling out with his businessman father and the Orthodox Judaism of his family. His whole life was supposedly a revolt against the chains and apparent social insensitivity of religious and cultural conservatism.

Keynes was the product of a British intellectual elite and a generation at the beginning of the twentieth century that was deter-

mined to break free of Victorian morality. A focus on the pleasures of the moment and a probabilistic theory of uncertainty concerning the future resulted in Keynes discounting many of the long-run consequences from short-run policies. In Hoover’s account, his homosexual adventures as a young man and his failure to father children after he married also made him think a lot less about the future impact of present policies.

Hayek, on the other hand, resented the rules and regulations that come with greater government control of social and economic affairs because of a bad marriage he entered into when he was a young man and a difficult divorce immediately after World War II. Untangling himself from an unwanted marriage, according to Hoover, supposedly is the key to understanding Hayek’s desire for a society with fewer restraints on the choices of individuals.

The difficulty with taking all such psycho-ideological analyses seriously is that they can be used to explain almost anything, and therefore explain nothing. There have been Jews who renounced their religious and cultural ancestry and became classical liberals. There have been free-spirited homosexuals who became social and political conservatives. And there have been people trapped in bad marriages and difficult divorces who became radical socialists.

An equally crucial weakness in Hoover’s book is his failure to come to grips with many of the important issues and arguments that separated these three protagonists in the decades between the two world wars. He gives the clearest analysis when critically evaluating Laski. He shows that Laski could not reconcile a desire for participatory democracy and greater human freedom with his ideal of economic planning. Hoover points out that as the years went by, the argument for centralized government control increasingly replaced Laski’s defense of personal liberty. And he explains that Laski never attempted to seriously grapple with the practical difficulties of centrally planning the production and consumption activities of tens of millions of people.

But in many ways Hoover’s discussion of

Laski is a sideshow to his central purpose: to argue that Keynes and his political-economic views represented the level-headed and moderate course that was relevant in the 1920s and 1930s, and is still important and relevant today. In making this case, Hayek becomes a foil, the extreme “right-wing” opponent of reasonable government action, blinded by a near-irrational hatred of political power applied for good social purposes.

Through all the details of Keynes’s and Hayek’s personal lives and academic activities in the period between the wars, Hoover devotes practically no time to an exposition of their competing theories of what caused the Great Depression or how to get out of it. Hayek is merely portrayed as the advocate of “do-nothingism” in an epoch of massive unemployment, while Keynes was designing practical policies to save society from want and waste.

The shallowness of Hoover’s understanding comes out most clearly in his discussion of Hayek’s critique of socialist planning. Hayek argued that the division of knowledge that inevitably accompanies the division of labor precludes any group of central planners from being able to integrate all the information required for central planning to succeed. Only the system of competitively generated market prices can coordinate the activities of multitudes of interdependent human beings.

Without any detailed discussion of the types and qualities of the knowledge used in a market society (which Hayek spent a good deal of time explaining in many of his writings), Hoover merely asserts that he sees no reason for thinking that most if not all such knowledge and information could not be absorbed and used by intelligent regulators and planners. And he conveys an unbelievably naïve conception of democracy as a forum for inclusive social participation, which suggests a total unawareness of the Public Choice literature about the actual special-interest-group workings of the political process.

In a nutshell, Hoover’s book is another rear-guard action by one who wishes to rationalize the continuation of the interven-

tionist-welfare state and the presumed ability of an intellectual elite to guide the economic affairs of others—all for their own good, of course. □

---

*Richard Ebeling is president of FEE.*

## **Capitalism and Commerce: Conceptual Foundations of Free Enterprise**

by Edward W. Younkens

Lexington Books • 2002 • 384 pages  
• \$80.00 hardcover; \$26.95 paperback  
(Rowman and Littlefield)

*Reviewed by Tibor R. Machan*

**A**s readers of this publication are likely to be well aware, capitalism and commerce aren’t very popular with most intellectuals and academics. One cannot dispute the generalization that the bulk of textbook authors and writers of scholarly works, not to mention college and university teachers in the field of business ethics, are mainly business bashers.

One harmful result of this sorry situation is that over the last several decades—during which college students have increasingly taken courses in business ethics—the topic has been taught mostly by those who are hostile to both capitalism and commerce. The major journals in the field are filled with critiques of all aspects of free-market capitalism and the kinds of commerce it makes possible.

This work is rare, then, for placing on the record a straightforward, accessible explanation of the nature of capitalism and the moral and conceptual foundations in support of the commerce that takes place in such a system. The book is eminently suitable for use in an introductory or intermediate course on business and society, business ethics, or the philosophy of economics.

The author, a professor of accounting at Wheeling Jesuit University, begins by noting that freedom—as understood in the classical-liberal tradition that unleashed capitalism all

across the globe—is not primarily a means to spur wealth production, as most classical and neo-classical economists since Adam Smith have understood it. Rather, it is a prerequisite of morally significant conduct itself.

If what you do is coercively imposed on you—as per the zillions of government regulatory and tax measures of the welfare state—there is no moral significance to your actions. Only to the extent that such coercive force is escapable and human beings are able to act on their own volition is their conduct morally significant. This is when we can be justifiably either credited or blamed for what we do. More precisely, only when we act freely are we able to exercise moral judgment. And, by extension, only in a capitalist economic system can there be a moral dimension to economic life—which means, significantly, that there is no such thing as generosity, compassion, or charity without liberty.

In Part I Younkens discusses the basic framework of a capitalist economy (“Individuals, Communities, and the State”). In Part II (“Ownership”) he covers the right to private property and its implications for various areas of capitalism, such as contract, work, labor unions, corporations and business in general. Part III deals with what Younkens dubs “Progress,” namely, entrepreneurship and technology. Part IV turns to the legal infrastructure required for the capitalist system to operate both justly and efficiently. Then in Part V Younkens faces the critics (“Obstacles to a free society”); for me this was the most interesting and stimulating section of the book. Finally, in Part VI, the author summarizes his thesis and assesses the prospects for the system he has so aptly described and supported with an impressive array of sound arguments.

The book is not only a fine way for anyone to get a good grasp of the moral case for capitalism—a case in constant need of reiteration since even its most prominent defenders, academic economists, do not appreciate it much. It also provides a wealth of information on what literature is available for developing one’s understanding of the myr-

riad topics related to the main theme. There’s a rich bibliography following each chapter, as well as a useful Appendix, “A Reader’s Guide to Free-Market Organizations and Periodicals.”

Now if there were also an effective marketing campaign to get this work to outshine all the business-bashing competitors that continue to pollute millions of young minds about the nature of freedom and the free-market system. Certainly Professor Younkens has given us a fine product with which to undertake such an effort. □

*Contributing Editor Tibor Machan (Machan@chapman.edu) is a professor at the Argyros School of Business and Economics at Chapman University.*

## **Nothing Is Sacred: Economic Ideas for the New Millennium**

by Robert J. Barro

MIT Press • 2002 • 184 pages •  
\$27.95 hardcover; \$16.95 paperback

*Reviewed by David L. Littmann*

Considering the vast number of economists trained in leftist universities and fed socialist soup, it’s refreshing to encounter some who found truth or who got mugged by economic reality. Economists Walter Williams and Thomas Sowell overcame the odds, made distinguished careers for themselves, and contributed immensely to the education of others through their writings, lectures, and fortitude.

Robert J. Barro is another such person. A noted Harvard professor, economic consultant, and author, Barro also admits to having experienced this deep-seated university tilt. He, too, matured beyond the conventional wisdom doled out on most campuses throughout the 1950–1990 era. How did he manage to emerge from socialist swamps? He lists two causes of his intellectual transformation:

First, he deployed economic reasoning to combat widely held beliefs—which accounts

for the wonderfully defiant title of his book. Second, he managed to get to the University of Chicago between 1972 and 1975 and learn how serious economic and financial debates are conducted.

Clearly, the Chicago-school experiences produced the kind of enlightenment and research that eventually won Nobel Prize recognition for many of his colleagues. Fittingly, the interaction he enjoyed with luminaries like Milton Friedman, George Stigler, Gary Becker, and Robert Lucas became grist for Barro's first chapter, which contains various thoughts, anecdotes, and analyses. He also sketches there an entertaining set of reflections on "Bono, the Rock Star as Amateur Economist," a sharp essay on "Al Gore in the Balance," and a thought-provoking lesson on Joe DiMaggio's career.

Barro's second chapter is a no-nonsense series of short discussions dealing with the "Economics of Social Issues." This is a virtual catalog of all the toughies in today's world of legal and psychological sensibilities, from the economics of beauty, abortion, and crime, to drugs, Napster, and meritocracy in higher education. The breadth of his subject matter might be disconcerting were it not that Barro hits each with the common denominator of economic logic. Indeed, it's this logic that makes the whole book worthwhile.

Barro seeks to bind himself and his audience to the power of economic reasoning, rather than bowing to the political expedience of "PC" graces. This is especially laudable for a Harvard academician. He discusses how his economic diligence and focus occasionally make him the outsider or even pariah on campus. But this is refreshing and helps clarify what is happening here and abroad.

And indeed, Barro uses his third chapter to illustrate successes and failures in the areas of economic growth, democracy, and international affairs. He superbly elucidates the several growth-enhancing agents that governments around the world need to embrace to promote prosperity. These passages are must-reading for most consultants,

administrations, and legislators because Barro is offering key, unvarnished truths about incentives that are essential to any well-functioning economic system. In this connection, readers will also appreciate Barro's pithy insights regarding the myopic, fraudulent, or self-serving motivations of leftists. He notes, for example, that admirers of Chile's late Marxist president Salvador Allende harbor great animosity toward that country's economic reforms because they demonstrate the superiority of free-market capitalism over socialism.

Barro's concluding chapter focuses on monetary and fiscal policies, and macroeconomics. Again, the reader is both informed and entertained. For example, citing studies on the topical question of federal budget deficits and mounting public debt, he cuts to the chase and identifies the culprit: undisciplined spending by government officials. He notes that in cases of successful budget reform, 73 percent of deficit reduction involved less spending, while for the failures, only 44 percent took this form. He explains that spending cuts are most successful in removing deficits because they are more permanent. They endure "because they tackle the two items of the budget, government wages and welfare programs, which have the strongest tendency to automatically increase."

If there is a weakness or inconsistency in Barro's book it is the author's occasional hesitation or pussyfooting on issues where you would expect him to be swinging for a home run. For example, Barro's treatment of the International Monetary Fund and West Germany's disastrous monetary accommodation during the East German economic merger suggest a shying away from the "Nothing Is Sacred" theme, possibly because of his prominence in consulting circles and his collegial association with so many notable economists who hold key posts at international agencies and in governments across the globe.

That, however, is only a minor irritation in an excellent and recommended book. □

*David Littmann is chief economist for Comerica Bank.*

## Free Trade Today

by Jagdish Bhagwati

Princeton University Press • 2002 • 128 pages  
• \$35.00 hardcover; \$14.95 paperback

*Reviewed by Victor A. Matheson*

In no other area is the gulf of opinion between economists and the general public wider than in the field of free trade. While economists nearly unanimously embrace the idea that free trade increases choices, lowers prices, and raises real incomes for citizens in the countries involved, a significant percentage of the general public endorses all sorts of protectionist policies, including tariffs, export subsidies, and import quotas. Economists face an uphill battle in convincing a skeptical public of the merits of free trade for one simple reason: free trade does not benefit everyone equally. Furthermore, the losses from free trade, such as unemployment caused by factories moving overseas, are more obvious to the casual observer than the myriad real but hidden benefits, such as better products, lower prices, and higher exports.

Picking up the banner of economic freedom in international trade is Jagdish Bhagwati, a Columbia University professor widely considered by academic economists to be the world's foremost spokesman for free trade and a likely future winner of the Nobel Prize in economics. In his newest book, *Free Trade Today*, he attempts, with a great deal of success, to bridge the gap between perception and reality in international trade.

This short and eminently readable book is based on three lectures he gave at the Stockholm School of Economics in the late 1990s. The book is divided into an examination of the historical case for free trade, a look at the current objections voiced by the motley assortment of protesters at any international economics meeting nowadays, and suggestions about how to achieve the goal of increased international economic cooperation in today's political climate.

The book is most successful in addressing

the current crop of threats to free trade. The general reader's attention may stray during the first chapter where Bhagwati examines the protectionist arguments of economists from the distant past. Indeed, for the first 45 pages the book reads much more like a history-of-economic-thought textbook rather than a forward-looking policy statement.

The remaining two chapters, however, are gems. When Bhagwati reaches the modern day he masterfully dispels each and every protectionist argument, from labor standards to environmental issues, point by point. What's more, he does not dismiss these concerns as unimportant in the light of market efficiency. Rather he explains how workers in poor and rich nations alike benefit, and the environment improves, from a free flow of goods and services across borders.

Those in sympathy with low-paid foreign workers will appreciate Bhagwati's concern for the world's poor. He convincingly argues that demonstrators who picket multinational corporations, which they accuse of exploiting third-world workers, do a disservice to those on whose behalf they protest. How else are poor countries to develop if they cannot import goods and capital from technologically advanced nations? If investment is scared off, the result will be increasing poverty for those countries, even as the protesters are basking in the glow of self-righteousness.

Professor Bhagwati warns against regional free-trade agreements such as the European Union, NAFTA, and Mercosur, arguing that these alliances too often simply lead the countries involved to raise trade barriers against countries outside of the region. They also tend to distract attention from the far more important cause of lowering worldwide tariffs and trade barriers.

This book can be read either as a concise refresher on free trade for those well versed in the subject or as an excellent introduction to the field. Either way, *Free Trade Today* makes an outstanding addition to the library of any advocate of the free market. □

---

*Victor A. Matheson is an assistant professor of economics at Williams College.*