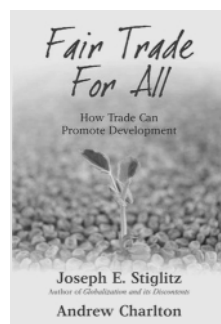

Book Reviews

Fair Trade for All: How Trade Can Promote Development

by Joseph E. Stiglitz and Andrew Charlton
Oxford University Press • 2005 • 315 pages • \$30

Reviewed by Richard M. Ebeling



Joseph Stiglitz is a professor of economics at Columbia University. He served as a member and then chairman of President Bill Clinton’s Council of Economic Advisers from 1993 to 1997, and then was the chief economist and senior vice-president at the World Bank from 1997 to 2000. In 2001

Stiglitz was awarded the Nobel Prize in economics for his work on imperfect and asymmetric information in markets.

His new book, *Fair Trade for All*, is coauthored with Andrew Charlton, a researcher at the London School of Economics. Their central thesis is that if poor countries are to develop and prosper, the developed world must not merely acquiesce in their interventionist and protectionist policies, they must assist them. You see, free markets, according to Stiglitz and Charlton, just don’t work.

They start with the standard economics-textbook model of a perfectly competitive market, where the institutions through which the participants interact assure a full and efficient use of all relevant knowledge. Looking around the “real world,” and especially in poor and less-developed countries, they observe that financial and other markets fall far short of this stylized textbook conception. These poor countries, therefore, suffer from severe “market failure,” which only wisely directed government intervention and regulation can cure.

Stiglitz and Charlton drag out of the grab bag of policy proposals many of the oldest and most frequently refuted ideas. A leading one, on the basis of which they defend protectionist tariffs, is the “infant industry” argument. The premise is that a new industry will only be

able to grow in a less-developed country if it is protected from more cost-efficient foreign competitors who otherwise would dominate the market. Later, once the infant has “grown,” it will no longer need that temporary trade protection.

The infant-industry argument, however, is merely one example for the authors, who believe that it is quite legitimate and useful for governments to undertake various “industrial policies” in which they pick potential “winners” for subsidies and regulatory benefits so that an underdeveloped country eventually can become a major player in the arena of global trade.

They also advocate controls on capital and investment flows in and out of less-developed nations. Governments in these countries will determine what foreign investment will be permitted and also restrict the ability of foreign investors to withdraw their funds if they become concerned about the policies being followed in the host country.

At the same time, they call for the developed countries to remove all their trade barriers to the exports of these less-developed nations, while providing them low-interest loans, foreign aid, and other subsidies in order to fully afford all those interventionist and welfare-state projects behind their high tariff walls. Furthermore, Stiglitz and Charlton insist that it would be a misuse of American or European “power” to impose any significant guidelines or restrictions on those countries’ interventionist and protectionist policies. Those governments should have a relatively free hand to use the money from Western taxpayers in any way they want. To impose rules or guidelines would be “elitist” and undemocratic!

Other than in an occasional passing comment, the authors give no weight to the idea that financial and other markets fail to function more efficiently in less-developed countries because property rights are not legally recognized and enforced. Stiglitz and Charlton seem oblivious to the important work that has been done by people like Hernando de Soto, who, in *The Mystery of Capital* (2000), demonstrated that throughout what used to be called “the third world” governments have either prevented or made extremely difficult the legalization of property titles, without which access to both domestic and international financial markets for

economic growth is virtually impossible.

Also, their textbook conception of “perfect” financial markets totally ignores how local markets develop to fit and serve the economic capabilities of participants. The authors seem to be equally unaware of the work done by the late Peter Bauer on this very theme. In his last book, *From Subsistence to Exchange* (2000), Bauer explained in great detail the process by which subsistence and low-income farmers and producers are spontaneously integrated into the wider national and international market through the evolution of networks of local traders and merchants who also provide credit.

Such networks need neither government support nor subsidy. Local merchants and budding entrepreneurs know the local conditions and opportunities that enable the trading connections to best fit the situation in each part of the poorer country.

The alleged nonexistent or “imperfect” product or financial markets in these countries only seem so when looked at through the analytical “glasses” of textbook perfect competition. When looked at through the eyes of the participants, the markets in fact may be functioning just as efficiently as the transactors require. Market institutions naturally evolve at that pace and in those forms that match the expanding potentials and opportunities of producers, merchants, and traders.

As Bauer and others have emphasized, what is needed from government is security from private and political plunder through the guarding of property rights, contract law, and equal treatment under the judicial system. In addition, low taxes, limited government expenditures, and a noninflationary monetary system are all that government can contribute to helping the development process.

Stiglitz seems also not to have read the writings of his fellow Nobel laureate James Buchanan. Otherwise, he would have learned from Public Choice theory that the interventionists into whose hands he wishes to leave the fate of the poor around the world are most likely to use their political power to serve themselves and various special interests with whom they are aligned, and not to improve the circumstances of the vast majority over whom they rule.

Joseph Stiglitz apparently suffers from a lot of imperfect knowledge in the field of economics, in spite of his

confidence in knowing how to plan and regulate other people’s lives.



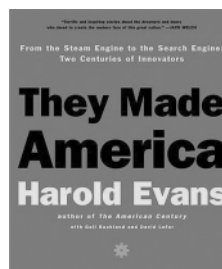
Richard Ebeling (rebeling@fee.org) is the president of FEE.

They Made America: From the Steam Engine to the Search Engine: Two Centuries of Innovators

by Harold Evans

Little, Brown • 2004 • 496 pages • \$40.00

Reviewed by George C. Leef



What a stunning book!

They Made America is a big glorious coffee-table kind of book that deserves to be picked up and read, not just dusted occasionally. Harold Evans (actually, Sir Harold—this former editor of the *London Times* was knighted in

2004) has given us a marvelous compendium of short biographies on American inventors and innovators. He begins late in the eighteenth century and continues on through to the present. Evans calls these people heroes, and while his portraits are done “warts and all,” one cannot help being swept up in his enthusiasm for individuals who have done so much to bring progress to mankind. Not a politician in the bunch.

Robert Fulton makes it into the book, but the first chapter goes to John Fitch, who actually beat Fulton in the development of a working steamboat by 20 years. Like nearly all early innovators, Fitch was a self-made man whose native intelligence more than compensated for his lack of formal education. A near escape from an Indian war canoe had set Fitch to thinking about the advantages of a steam-powered craft, and he succeeded in building one without ever having heard of James Watt.

All the famous American inventors and innovators are here—Eli Whitney, Charles Goodyear, Thomas Edison, Henry Ford, George Eastman, the Wright brothers—as well as some people the reader probably won’t know. Sarah Breedlove Walker, for example, was a remarkably successful black businesswoman who rose from abject poverty because of her ability to create and

market hair-care products. Evans writes that “she attributed her rise to the virtues of patience, thrift, and the acquisition of practical skills, then being preached by the former slave Booker T. Washington.” Eventually, Madam Walker, as she was known, would build for herself a magnificent Italianate villa in Irvington-on-Hudson, New York (FEE’s hometown, of course). Her story demonstrates that it was possible for blacks to succeed in business at a time when the political system did all it could to keep them poor and ignorant.


The individual chapters are fascinating, but there is a bigger message here. Evans writes of the people who chose to come to America. “[U]nnoticed among the millions of these ambitious self-selected risk-takers . . . were individuals who were exceptionally willing to dare. Their gifts for innovation accelerated America’s progress over two centuries When they disembarked, blinking in the bright light of the New World, they had no idea what their destinies would be. The magic was in the way they found fulfillment for themselves—and others—in the freedom and raw competitive excitements of the republic.”

Yes, the individuals about whom Evans writes made America, but they needed the environment of freedom to succeed. The reason is that innovation can only thrive in an atmosphere of liberty. Evans’s writing suggests this crucial connection, but I wish he had made it more explicit.

A corollary point: Evans correctly says of early America, “Everything turned on individual enterprise. The national government was weak and the laissez-faire ideas of Adam Smith had taken root.” In the America of the 21st century, however, the national government is virtually omnipotent and the sphere of laissez faire is greatly constricted. Evans includes several “digital age” innovators, such as the founders of eBay and Google. Communications is one of the few areas of the economy still relatively free of regulation, and the question thus presents itself: Are we stifling innovation and progress in the many sectors of the economy that are heavily regulated? The absence of modern innovators in certain other fields seems like the Sherlock Holmes story in which the dog didn’t bark.

Finally, here’s a quibble. Evans wants to distance himself from libertarians and Randians by saying that we

need to think about all the ways in which government has stimulated innovation—like the interstate highway system. Compared to the enormous destruction of wealth that has been caused by our Leviathan through its taxation to support domestic and international meddling, however, any benefits from the state must be microscopic in comparison.

Having said that, I still think the book is a stunner. 

George Leef (georgeleef@aol.com) is book review editor of The Freeman.

The Harsh Truth About Public Schools

by Bruce N. Shortt

Chalcedon Foundation • 2004 • 466 pages • \$22.99 paperback

Reviewed by David L. Littmann



Prepare for a mind-altering experience as you take a scary but empowering read through Bruce Shortt’s book *The Harsh Truth About Public Schools*.

The reader should not be deceived by what seems an overwhelmingly sectarian starting point in this well-organized, reader-friendly book. Shortt’s style is highly effective in convincing readers that the “public school” system in the United States today is beyond reform.

From beginning to end, the writer, an attorney who homeschools his children, documents the dishonorable conduct, degenerating academic standards, and defensive bureaucracy that are jeopardizing America’s future, courtesy of teacher unions’ self-interest and increasingly derelict parents.

For the critical reader it’s easy to cop an attitude toward the book in Chapter One. Many will think, “Why is the author blaming the purveyors of public education—from teachers and principals to school boards and activist courts? Why isn’t the finger-pointing toward complacent, delinquent, and irresponsible parents and taxpayers?” Gotcha! Whether this is the intended or unintended direction of Shortt’s work, he compels readers into subsequent chapters, all the way to the end, where constructive alternatives to the failing

public-school system are enumerated and discussed.

Shortt's early chapters are designed to shock, as the author hops from one school district to another, covering every state, to document instances of classroom lies and perversion that not only go unpunished, but are also the subject of attempted cover-ups by public school officials. He cites a case where parents were not notified when a transsexual was brought into a first-grade class to describe how sex changes are performed! And under the heading "Whose Children Are They?" the author tells of a parent who went to the trouble of reviewing classroom material and learning later that the teacher told the child, "Your parents don't have to know."

By the end of the third chapter, the reader is thoroughly aware of the pervasiveness of corruption, mediocrity, and deception in public education today.


Shortt also presents an eye-opening history of the evolution of American public education, along with the motivations (some idealistic and well-intentioned, and some quite nefarious) that moved this country away from nearly 100 percent private education to our current, 89 percent government schooling. This fascinating, 200-year excursion elaborates the multitude of reforms that parents and educational experts have proposed, and hits hard on the obstacles to reform that have been erected by teacher unions and lobbyists for the status quo.

The book later explores success and failure patterns in charter schools, private and parochial organizations, and homeschools. Shortt also compares the school bureaucracy's nauseating, defensive braggadocio with the disappointing reality of academic performance.

The author also debunks the establishment myths about this being our "best-educated generation." He counters this with the discouraging ACT and SAT scores of our top public high-schoolers, despite fabulous growth in taxpayer spending per pupil, which has far outpaced price inflation. Shortt also exposes the dirty little data secrets attendant to falling levels of expectation and performance in the public-school arena: drop-out rates, the cost and growth of remedial education, cheating by teachers and administrators to raise test scores, and so on.

To achieve durable, long-term gains in student achievement with far fewer dollars per pupil, Shortt rec-

ommends homeschooling and parochial education. Not that the author omits discussion of reform from within the public-school system: vouchers, charter schools, and meetings with teachers, principals, and school boards just for starters. He evaluates them and concludes that these efforts at reform are a snare and delusion. He advocates that every church support and educate parents about homeschooling and collaborate with other churches to find ways to bring every Christian child out from government-school bondage.

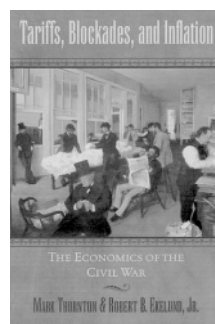
Given Shortt's central concern with rescuing Christian children from increasingly immoral, dangerous, and dumbed-down learning environments, he might be accused of writing a book that would appeal only to Christian conservatives. Not true. Within his fine book Shortt includes quotations from rabbis and the Hebrew prophets that support his case that government schooling is an enormous impediment to quality education and the longevity of an ethical, progressive society. 

David Littmann (David_Littmann@hotmail.com) recently retired as chief economist of Comerica Bank.

**Tariffs, Blockades, and Inflation:
The Economics of the Civil War**

by Mark Thornton and Robert B. Ekelund, Jr.
Scholarly Resources, Inc. • 2004 • 124 pages •
\$65.00 hardcover; \$19.95 paperback

Reviewed by John Majewski



In concise and clear prose Professors Mark Thornton and Robert Ekelund use basic economics to explain the causes, outcome, and consequences of the Civil War. Employing Public Choice theory—a subdiscipline of economics that focuses on how public officials and government bureaucracies make decisions—Thornton and Ekelund attempt to revise many standard accounts of the war. Although their economic analysis sometimes comes across as simplistic, they nevertheless add an important and overlooked perspective on the causes and consequences of the bloodiest war in U.S. history.

Perhaps the most controversial claim in *Tariffs, Blockades, and Inflation* is that the tariff (as opposed to slavery itself) may have been far more important in causing the Civil War than many historians assume. The protective tariff hurt the long-run economic performance of the nation as a whole, and it was undoubtedly a major regional divide between North and South. Northern manufacturers benefited most from a protective tariff, while Southern planters and farmers, who paid higher prices for the manufactured goods they purchased from either Britain or the North, suffered most. Given that Lincoln wanted to raise tariffs, Thornton and Ekelund argue, his election signaled the possibility of a protectionist regime that might have reduced the value of Southern plantations and slaves by some \$700 million. Southerners could probably have blocked Lincoln's attempt to raise tariffs if they had stayed in the Union, but Thornton and Ekelund argue that "tariff uncertainty" made secession an appealing option. Rather than risk higher tariffs, why not simply leave the Union?

Thornton and Ekelund also highlight the impact of the Union blockade, which ironically led Southern blockade runners to import highly valued luxury items rather than wartime necessities. Thornton and Ekelund argue that the blockade changed relative prices within the Confederacy so that it became more profitable to import easily transportable luxuries (such as silk textiles) and less profitable to import bulky necessities (such as iron and machinery). Profit-oriented blockade runners thus focused on luxuries even as Confederate civilians and soldiers suffered grievous shortages of basic necessities. The "Rhett Butler" effect, as Thornton and Ekelund call it, had a host of unintended consequences. It lowered Confederate morale and led to widespread condemnation of "unpatriotic" blockade runners and speculators. Such public sentiment, in turn, led to counterproductive government policies (such as price controls) that made shortages even worse.

The final chapters show the consequences of government intervention in both the North and the South. Thornton and Ekelund, for example, analyze inflation as a form of taxation. By raising money from the printing press, the North and South alike created a ruinous infla-

tion that misallocated resources and severely damaged morale. The inflation problem was especially severe in the South, which could not impose direct taxes or borrow money to the same extent as the North. The focus on inflation ties in nicely with the argument that the Civil War hindered rather than helped economic growth. This point is especially persuasive and important, if only because some historians still believe that war is essentially good for a capitalist economy.

In many respects *Tariffs, Blockades, and Inflation* is an appealing book. The explanations of economic theory are clear and helpful, and the book is generally even-handed in its willingness to blame both Northerners and Southerners for enacting bad economic policy. Yet the book is somewhat uneven. Its brief and readable format—and its tendency to summarize secondary works rather than delve into nineteenth-century sources—sometimes oversimplifies complicated political debates. The book's brevity also means that some arguments are not fully fleshed out. To cite one example, Thornton and Ekelund claim that a less inflationary policy in the South would have forced policymakers "to rely on more decentralized and defensive military strategy." This is a big point that cries out for further evidence and elaboration.

So, too, does their idea that "tariff uncertainty" was an important motivation for Southern secession. Tariff uncertainty had always existed in the antebellum decades. Why, then, did Southerners leave the Union in 1861 and not in 1842, when the Whigs passed a protectionist tariff? Or why did most Southerners reject secession when South Carolina attempted to nullify the tariff in the early 1830s? How rational is it to fight a war, which would leave 620,000 men dead, over tariffs that might or might not be enacted?

If *Tariffs, Blockades, and Inflation* may leave readers wanting more, it nevertheless is a clear application of market-based economics to the Civil War issues. Readers will find it a helpful introduction to the literature that Thornton and Ekelund cite in their useful bibliographic essay.



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