

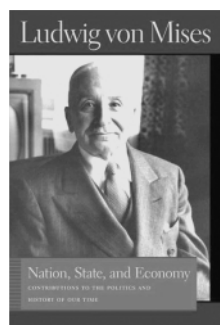
Book Reviews

Nation, State, and Economy: Contributions to the Politics and the History of Our Time

by Ludwig von Mises

Liberty Fund • 2006 • 220 pages • \$20.00 hardcover;
\$12.00 paperback

Reviewed by Richard M. Ebeling



Without a doubt, World War I was one of the most momentous events of the last hundred years. Indeed, it could be argued that it was *the* most important event during this time. It marked the break between the generally classical-liberal epoch that had prevailed during the nineteenth century and the collectivist era that has dominated world civilization ever since.

Of course, collectivism had been growing in intellectual and political influence for several decades before the war began in 1914. But it was that war that released the demons on the entire world: socialism, communism, fascism, Nazism, interventionism, and the welfare state.

The Austrian economist Ludwig von Mises served in the Austro-Hungarian Army during the war as an artillery officer, seeing action on the eastern front against the Russians. After the war ended in November 1918 Mises returned to his prewar employment as an economic analyst for the Vienna Chamber of Commerce. In that role he was deeply involved in the postwar politics and economics of the new, small Austrian Republic. In the middle of all these events he found time to write *Nation, State, and Economy*, which appeared in the early autumn of 1919. In its pages he attempted to explain the causes and consequences of the war. After being out of print for many years, the English translation of this important volume is available once again, published by Liberty Fund.

The book is really two long essays on related themes. The first part is an insightful analysis of the origins and

implications of modern nationalism and the concept of nationality in general. The second part is devoted to a detailed study of the relationships between socialism, imperialism, and war.

A sense of nationality has often been said to be linked to a common racial or cultural heritage. Mises argues, however, that in modern times feelings and attitudes of a shared national belonging, especially in Europe, have had their origin in a common language. Language, he says, is the means through which we reason, communicate, and have a shared basis with others for understanding and interpreting the world. The linguistic stamp is impressed on us in childhood from those immediately around us as we absorb a language. “Community of language binds and difference of language separates persons and peoples,” Mises states.

Mises is careful to explain that neither a language nor a language group is static; both are constantly in flux. But at any moment a shared language works as a strong element of self-identity and a common bond with others. Mises goes to great lengths to challenge the racial conception of nationality, especially as it had been developing in Germany in the decades before the war. “Germans” could be shown to have many ethnic backgrounds; what they all possessed was the German language.

Over the last 200 years, Mises explains, political nationalism took two forms: “liberal nationalism” and “militant or imperialistic nationalism.” Liberal nationalism was grounded in the idea of individual freedom, which included the right of individuals to decide the state to which they wished to belong. This meant kings and princes no longer should have the right to trade among themselves territories and their inhabitants. The notion of national self-determination was a natural outgrowth of this. In Western Europe, where there were compact and relatively homogeneous linguistic groups, the boundaries of states could frequently reflect the borders between these groups.

That was more difficult in Central and Eastern Europe, a patchwork of overlapping and adjacent linguistic groups within the same states. Political boundaries could not easily be drawn along linguistic lines, so linguistic majorities held political power over linguistic minorities.

If classical liberalism had prevailed and governments had been limited to securing life, liberty, and property, Mises suggests, the frictions between linguistic groups living in these nation-states might have been minimized. But with the growth of interventionist ideologies and policies in the second half of the nineteenth century, government power was inevitably used to benefit one linguistic group at the expense of another. This became the basis for the nationalistic conflicts and wars in Europe over the last 150 years.

In the decades before World War I German nationalism was grounded in two ideas: that all Germans had to be unified within the same political state (even if this meant incorporating and oppressing minority linguistic groups), and that Germany had to have a territory large enough to be self-sufficient in land and resources to match the economic potential of any political rival for domination on the European continent. Those goals generated a spirit of German militarism and imperialism, Mises laments, that set the stage for the events that then unfolded beginning in 1914.

Classical liberalism, Mises argues, focuses on the rights and the welfare of the individual. Nationalism and imperialism see only the collective to which the individual must be made subservient for the sake of the nation-state, even if subservience includes paying what he calls the “blood tax”—that is, being sacrificed on the battlefield for the glory of national greatness.

In the second part of the book one sees already many of the ideas for which Mises would become famous in the twentieth century. He demonstrates why central economic planning and regulation during war are the exact opposite of what should be done if a country is to use its full potential against its enemies. It is precisely during a national emergency, when resources and productive ability must be quickly shifted from peacetime to wartime uses, that the market must be left free. Market-based profit incentives and entrepreneurial ingenuity will get the job done far better than any bureaucracy.

Mises also challenges the popular delusions about supposed wartime “booms.” Regardless how a war is financed—increased taxation, more borrowing, or printing-press money—society ends up poorer. Consumers see fewer goods made for them because scarce resources

must be shifted to making the tools of war. Often capital is not fully maintained and replaced due to the pressures of war production, resulting in a loss of productive capability. And of course, part of the labor force is killed or permanently maimed in battle, while part of the society’s physical capital is destroyed in the conflict.

What creates the illusion of wartime prosperity is the apparent good times generated by inflation. Here Mises hammers away that inflation creates the illusion of prosperity only because of the “non-neutral” manner in which increases in the money supply ripple through the economy. Thus it appears that profits are improving and incomes are rising when in fact beneath the monetary surface massive distortions and imbalances are being produced by the inflationary process. Mises was one of the first economists to demonstrate how inflation can distort accounting methods, resulting in actual capital consumption.

One also sees in this book the germ of his critique of socialist central planning—which he would publish a year later—when in his analysis of inflation he emphasizes the crucial role of economic calculation and a stable monetary system if resources are to be used efficiently and capital is to be properly maintained and allocated to the most highly valued uses.

In the concluding chapter Mises bemoans the fact that all the great industrial achievements made possible by the classical-liberal epoch of the nineteenth century had been placed in the service of collectivism and imperialism. The push of a button can send tens of thousands to their deaths because the technologies of peaceful capitalism had been perversely adapted to violent statist ends.

And the shadow of the next world war was already seen by Mises. He warned his fellow Germans and Austrians that if in defeat they vengefully planned a future war, they could well face “the complete annihilation of the German people.” All who have seen the photographs of the wasteland that Germany became in World War II can appreciate how clearly in 1919 Mises had foreseen the disaster that faced Germany 25 years later thanks to its failure to turn its back on collectivism and its Nazi permutation in the 1930s.



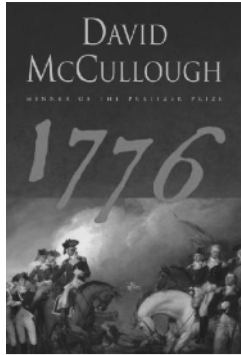
Richard Ebeling (rebeling@fee.org) is the president of FEE.

1776

by David McCullough

Simon & Schuster • 2005 • 294 pages • \$32.00 hardcover; \$18.00 paperback

Reviewed by George C. Leef



1776 is Pulitzer Prize-winning author David McCullough's chronicling of the momentous year in which Britain's American colonies declared their independence from the ruling monarchy, came exceedingly close to military defeat on several occasions, and finally won a morale-boosting victory that sufficed to keep

the fire of rebellion from dying out the following winter. This, of course, is history that has been told many times before, but McCullough not only recounts the tumultuous events in a gripping manner, but also weaves into his account enough of the philosophy of the contending sides to make the book considerably more than just another military history. The details of troop movements, attack and defense, weaponry, and so on are all here. So, too, is a look into the minds of the men who fought to shape the destiny of North America in that amazing year.

We learn, for example, a great deal about King George III, who was dismissive and contemptuous of the patriot forces and regarded it as his "duty" to restore order in his empire by compelling his rebellious subjects to obey. How dearly he, but mostly the people of England, would pay for his haughty attitude. As with so many rulers throughout history, King George's imperious cast of mind would lead to great suffering among his friends and foes alike.

Some readers will be surprised to learn that there was a considerable antiwar faction in England. One newspaper, the *Evening Post*, denounced the war to force the naughty colonists to respect their royal masters as "unnatural, unnecessary, unjust, dangerous, hazardous, and unprofitable." Letters home from soldiers serving in the colonies also attacked the King's war policy. One, from an officer stationed in Boston, expressed the wish that all the "violent people" who advocated war should


come across the Atlantic to experience it themselves. "God send us peace and a good fireside in Old England," the man wrote plaintively.

Nor, we learn, was the war uniformly popular with the aristocracy. In the House of Lords the Duke of Grafton, saying the King's ministers had deceived him as to the true state of affairs in America, proposed that every act that Parliament had passed regarding the colonies since the disastrous Stamp Act of 1765 should be immediately repealed. He argued that "nothing less will accomplish any effectual purpose, without scenes of ruin and destruction, which I cannot think on without the utmost grief and horror." And in the House of Commons, John Wilkes, Lord Mayor of London, maintained that the war with "our brethren" in North America was "unjust, fatal, and ruinous to our country." Whether McCullough had current U.S. policy in mind when he included these pages on dissent from British policy in 1776, they have an unmistakable connection across the centuries.

Why did the patriots fight? McCullough answers: "Asked what they were fighting for, most of the army—officers and men in the ranks—would until now have said it was in defense of their country and their rightful liberties as freeborn Englishmen." Driving away the hated redcoats was the motive for most of the soldiers. The idea that political independence should be the objective had not gained many adherents in 1776. That abstraction wasn't nearly as potent a motivator as the presence of British regulars, widely regarded as an invading force.

On the battlefield it's often better to be lucky than good, and much of 1776 is proof of that adage. A diligent British commander would have had little difficulty in defeating Washington's army in 1776, especially in view of the repeated military blunders Washington committed during the New York campaign that summer. Fortunately, the British general commanding the land forces, William Howe, was, McCullough writes, "slow-moving, procrastinating, negligent in preparing for action, interested more in his own creature comforts and pleasures." Howe made no effort to understand his adversary or to fathom his intentions. His indolence was a constant source of irritation for his more aggressive subordinates.

On several occasions, Washington's attempts to defend New York—which was quite impossible given the British control of the seas—nearly led to the destruction of the Continental Army. The unsung hero of the year was really Colonel John Glover, whose regiment of expert boatmen from Massachusetts saved the army from capture on Long Island by rowing it off to temporary safety, saved it again by plugging a defensive gap at White Plains, and finally made possible the surprise attack on the Hessians at Trenton by rowing the army across the icy Delaware River. Readers will revel in the detailed account McCullough provides of the famous surprise attack on Trenton.

Beautifully written and printed, *1776* is a book that belongs in the library of everyone who has a desire to understand how the United States came to be. 

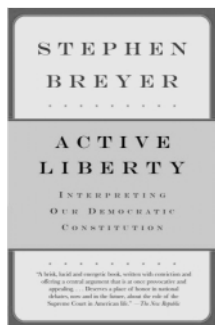
George Leef (georgeleef@aol.com) is book review editor of *The Freeman*.

Active Liberty: Interpreting Our Democratic Constitution

by Stephen Breyer

Alfred A. Knopf • 2005 • 161 pages • \$21.00 hardcover;
\$12.95 paperback

Reviewed by Michael DeBow



Active Liberty deserves to be widely read and discussed. In it Justice Stephen Breyer explains his approach to the Constitution and his view of the proper role of the federal courts. Based on a series of lectures he gave at Harvard in 2004, the book is not likely to win over many readers of *The Freeman* to Breyer's point of view. But I can think of no better book to read if one is interested in how talented left-of-center judges and lawyers think.

Broadly speaking, there are two ways to look at the Constitution—one focuses on the text, the other doesn't. Justice Breyer is firmly in the latter camp. Specifically, he argues for a form of interpretation known as "purposivism," which he explains by quoting a

1941 Supreme Court opinion: "The judge should read constitutional language 'as the revelation of the great purposes which were intended to be achieved by the Constitution' itself, a 'framework for' and a 'continuing instrument of government.'" Note well the word "continuing." Breyer's Constitution is of the living-breathing variety, and he is comfortable with the massive regulatory-welfare state we now have. Property rights are mentioned once in his book, and the concept that the federal government has only enumerated (limited) powers is ignored, as is the Founders' assumption that most government business would be settled at the state or local level. At one point, Breyer dismisses "textualism"—the more text-bound approach to the Constitution—by characterizing it as "placing weight upon eighteenth-century details to the point at which it becomes difficult for a twenty-first century court to apply the document's underlying values."

Chief among the Constitution's "underlying values" that Breyer is keen to advance is "active liberty," which he also refers to as "ancient liberty." He cites Benjamin Constant, a nineteenth-century political philosopher, for the distinction between "ancient" and "modern" liberty. Modern liberty is what most people likely have in mind when using the word: "freedom from government, . . . the individual's freedom to pursue his own interests and desires free of improper government interference." Breyer contrasts this everyday meaning with "the active liberty of the ancients, what Constant called the people's right to 'an active and constant participation in collective power.'"

Elsewhere, Breyer defines active liberty as "the scope of the [citizen's] right to participate in government," and the "principle" of active liberty as "the need to make room for democratic decision-making." Active liberty is the great "democratic theme" that, Breyer assures us, "resonates throughout the Constitution."

Breyer cannot, of course, point to the term "active liberty" in the text of the Constitution because it does not appear there. The unmodified word "liberty" does appear twice outside the Preamble—in the due-process clauses of the Fifth and Fourteenth Amendments—but Breyer makes no attempt to tie his purposivism to these textual anchors. Rather, his claim for the legitimacy of his interpretive theory depends

on his reading of the broad outlines of American political history.

The problem with purposivism is that it is an open invitation to judges to legislate from the bench. The Supreme Court decisions Breyer discusses do not reassure the reader on this point, despite his repeated references to the need for judicial restraint.

Remarkably, Breyer does not discuss *Roe v. Wade*, almost certainly the most widely debated modern decision in which the Supreme Court gave an expansive reading to the term “liberty” in the Fourteenth Amendment. Since *Roe* is the elephant in the middle of the room of American constitutionalism, the omission is indefensible.

Breyer does attempt a purposive defense of the Supreme Court’s 2003 decision upholding the affirmative action practices of the University of Michigan Law School. He declares that “equality . . . is the underlying objective of the Equal Protection Clause” and that affirmative action promotes equality. Q.E.D. He engages in no textual analysis beyond that, and does not try to make any argument based on the history of the adoption of the Fourteenth Amendment.

Breyer’s defense of the Court’s 2003 decision upholding the McCain-Feingold campaign-finance statute likewise depends on his judgment that the underlying objective of the free-speech clause of the First Amendment is to protect “participatory self-government” and that this objective is best served by restrictions on campaign contributions. His explanation of his vote against allowing parents to use federal education vouchers to pay parochial-school tuition depends on his judgment that the underlying objective of the First Amendment’s establishment clause is the avoidance of “religious strife.”

Most of the rest of Breyer’s examples sound this same theme. It’s underlying objectives all the way down, to borrow the punch line from an old joke.

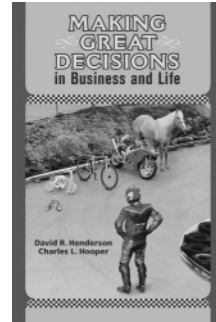
Although *Active Liberty* failed to convert me to the cause of purposivism, I applaud Justice Breyer for writing such an honest book. *Active Liberty* invites interested citizens to discuss the nature of the Constitution and of judging.

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Making Great Decisions in Business and Life

by David R. Henderson and Charles L. Hooper
Chicago Park Press • 2006 • 287 pages • \$28.50

Reviewed by Philip R. Murray



David Henderson and Charles Hooper have given us a “how to” book employing economic principles to solve common problems.

The problems range from everyday situations to far deeper problems calling for sophisticated analysis. Hooper explains how he figured out why his gas grill quit working. Henderson tells how he salvaged his vacation by buying pillows from a department store instead of upgrading his hotel. Or consider the choice between looking for a postcard stamp and using a letter stamp. The authors recommend using a regular stamp because the value of your time is greater than the few cents you’d save. Under their assumptions that you earn \$200 an hour and the probability of finding a postcard stamp is 75 percent, they calculate that you should spend no more than 1.89 seconds looking.

Thinking about buying a compact car? Henderson and Hooper introduce the concept of a “micromort” to shed light on the tradeoff between the lower price of the compact and the greater risk of death due to an accident. “A micromort” they explain, “is a unit of cost that you bear for engaging in risky activities.” Given a few assumptions about small and large cars, they calculate that the greater risk of death from driving the former amounts to \$10,900 compared to \$5,300 for the latter. “The larger car undoubtedly costs more to purchase and operate,” they conclude, “but given everything else equal . . . it is worth \$5,600 more purely due to its safety.”

The most complicated technique is the “risk-averse expected net present value approach,” which the authors apply to buying home insurance. Intuition suggests we buy insurance because “we are happy spending a little money to protect ourselves from big losses.” The mathematics of the “risk-averse expected net present value approach” shows the logic of that intuition. Readers should not be deterred by this and a few other technical

sections in the book; there are plenty of basic rules of thumb to help them with the difficult patches.

The authors also take on some controversial policy topics and provide a warning label for one discussion: “Before you read on, let us warn you that we are about to challenge a commonly accepted belief.” That belief is the immorality of sweatshop labor. Henderson and Hooper explain that refusing to buy products made in sweatshops may actually harm some workers who lose their jobs or take lower paying jobs elsewhere. Thus comprehension of economics may help “socially conscious” consumers avoid a decision—boycotting sweatshop products—that would be counterproductive.

Henderson and Hooper return to the question of decisions affecting auto safety with a look at the famous Ford Pinto. Ford could have spent a small amount per car to prevent the gas tank from exploding. “Based on Ford’s estimated value of a human life and its estimated probability of fires,” however, “it concluded that the \$11 part was too expensive.”

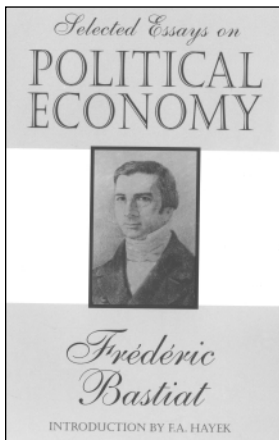
What might be shocking is that we live in a world where automakers sell cars that aren’t as safe as possible. To explain why not, Henderson and Hooper cleverly

pose two alternative scenarios. In the first, “Ignorant Cars International” suppresses any thought of making its cars safer for fear of being caught putting a car on the market knowing it could have been safer still. In the second, “Infinite Motors” encourages its employees to think of ways to make cars safer and implements each measure before cars go on the market. Ignorant’s cars won’t get any safer, but Infinite’s cars will either never reach the market or they’ll be so expensive few will buy one. In the real world, companies make cars incrementally safer over time and people risk buying cars that are affordable but not the safest possible.

Reading *Making Great Decisions* is apt to change your behavior to some degree. Anyone who has been spending more than a few seconds searching for postcard stamps will probably reconsider. Some may replace their old refrigerators for a double-digit return on their investment. A few might construct a decision tree to analyze buying insurance. Thanks to Henderson and Hooper, everyone will find that the mental toolbox of economic thinking is useful.



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Selected Essays on Political Economy

By Frédéric Bastiat

Introduction by F.A. Hayek

Frédéric Bastiat (1801–1850) was the most uncompromising advocate of laissez faire in the nineteenth century—and arguably the most quotable! Here, in a single volume, are Bastiat’s most brilliant contributions to the controversies of his age.

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