
Book Reviews

Reviving the Invisible Hand: The Case for Classical Liberalism in the Twenty-First Century

by Deepak Lal

Princeton University Press • 2006 • 320 pages • \$29.95

Reviewed by Richard M. Ebeling



UCLA economics professor Deepak Lal is one of the most articulate defenders of the free market and an outspoken critic of interventionist and welfare-state polices around the world.

Over 20 years ago, when central planning was still considered a panacea for economic development in third-world countries, Lal published *The Poverty of "Development Economics"* (1983), a devastating critique of collectivist ideas and policies then dominant in underdeveloped countries. More recently, in *Unintended Consequences* (1998) he traced the unique institutional changes in Medieval Europe that led the West out of poverty.

In his latest book, *Reviving the Invisible Hand*, Lal explains why the world has only one hope for a free and prosperous future—the politics of classical liberalism and the economics of a radically free market. While well trained in mainstream neoclassical economics, he rejects many aspects of the textbook equilibrium models for a more realistic conception of man and markets derived from the classical economists and more modern theorists, such as the Austrian economists F. A. Hayek and Joseph Schumpeter.

Incorporating as well insights of the Public Choice theorists, Lal demonstrates why governments should not be viewed as manned by “Platonic Guardians” only concerned with some hypothetical common good. Rather, government should be viewed as full of predators using the coercive powers of the state to plunder others.

Lal then debunks many of the theoretical and factual myths of the day. He shows that both in the nineteenth-century heyday of classical liberalism and in the post-World War II period, the freer the trade among nations,

the greater the benefit for all. Nineteenth-century *laissez faire* brought rising living standards and more market opportunities not only for the wealthy few, but also for the poor. The result was a growing middle class. Nor did free trade and enterprise harm the poor in underdeveloped countries. The more integrated they have become with Western economies, the greater and the more rapid their climb from economic desperation.

Accusations of the increasing “income gap” between rich and poor, both within developing countries and between them and Western nations in recent years, are shown to be based on either false or misused data. Indeed, Lal explains that more people than ever are now outside any reasonable measurement of poverty.

Precisely because it is possible to end poverty, Lal turns his analytical guns against the anti-capitalist and anti-globalization groups that have infiltrated non-governmental organizations (NGOs), as well as the United Nations, the World Bank, and many other international agencies. At the core of this opposition to a free market is the environmental movement. In a brilliant tour de force Lal demolishes each of their doomsday nightmares. For example, he draws on the relevant scientific evidence to argue that there is no catastrophic global warming and no significant climate change caused by industrialization. He shows that in general the earth is far cooler than it was in the Middle Ages, when a cooling trend set in for several centuries. The swing back to a warmer climate appears to be part of the planet’s natural cycles and may be highly beneficial to parts of the globe—if it actually materializes.

A central chapter turns to “morality and capitalism.” Lal reminds us that anthropologists and psychologists generally agree that human nature has not changed much since the Stone Age. Man is a chooser of ends, an applier of means, and an evaluator of tradeoffs to get the most out of what he has. In addition, men have within themselves the potential for risk-taking and creativity.

It is from this latter possibility that come society’s merchants, innovators, and entrepreneurs. In agrarian society, social order follows the seasons; relatively unchanging societal patterns are essential for survival and intergenerational continuity. Merchants and entrepreneurs, by their nature, are experimenters with the new—breakers of the existing order. Thus they have

usually been shunned and disliked; in addition they seem to conjure up wealth out of nothing, unlike those who mix their labor with the soil or who fashion goods out of the materials of the earth.

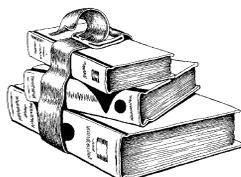
In Europe during and after the Middle Ages, changes in economic institutions and the philosophical conceptions of man and society stimulated growth of the market economy and gave a degree of legitimacy to these men of the market and their bourgeois virtues. These changes were grounded, Lal explains, in Christian doctrines: a universal morality that focused on the individual, his autonomy, and his salvation. Other faiths, for example, Hinduism, Buddhism, and Confucian philosophy, emphasized communalism, societal hierarchy, and an exclusionary morality for the faithful. They also fostered subservience to a given order of things, with a suspicion of worldly pursuits.

The individualistic foundations of Western moral philosophy were undermined by the rise of positivism. The Victorian era attempted to balance scientific insight and faith-based values and moral conduct. But these values were eaten away in the late nineteenth and twentieth centuries until, Lal argues, there was no shared foundation for moral conduct other than “anything goes” as long as it makes you feel good and doesn’t seem to be too harmful toward others.

Lal says that much of the resistance to globalization in other parts of the world has little to do with rejection of market-based institutions. Rather, people fear that with those institutions must come the perceived amoral and immoral “lifestyles” of the West. Lal responds that acceptance of market-based institutions does not require the adoption of Western “permissive” culture.

Thus we in the West should be more interested in seeing others adopt free markets and less concerned with whether they accept Western “values.” Attempting to impose such values may only have the perverse effect of causing other people to reject capitalism. 

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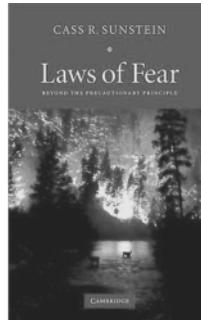


Laws of Fear

by Cass Sunstein

Cambridge University Press • 2005 • 234 pages • \$65.00 hardcover; \$23.99 paperback

Reviewed by Donald J. Boudreaux



Cass Sunstein is much like his University of Chicago Law School colleague Richard Epstein. Both publish articles and books at a breathtaking pace. Both use economics lavishly. Each would be the smartest person in any group of 10,000 randomly chosen people. Both are academic superstars.

But while Epstein sees the world through the lens of a classical liberal, Sunstein wears the lens of modern American liberal—or a “progressive,” as such well-meaning champions of vigorous government regulation and heavy taxation are (misleadingly) called.

Unlike many “progressives,” however, Sunstein brings genuine intellectual firepower to the debate. His arguments, in this book and elsewhere, are serious and challenging. And while I often disagree with him, I must say that 90 percent or more of this book is spot-on correct.

He opens *Laws of Fear* with a devastating attack on the so-called “precautionary principle.” This “principle” advises that we steer clear of actions that might generate substantial harm even if we don’t know what this harm might be and its chances of occurring. If it’s possible that action X will cause some great harm, the precautionary principle demands that the action be avoided.

Environmentalists love that principle because it rationalizes almost any piece of restrictive regulation—or so they think. Because, for example, drilling on the Arctic National Wildlife Reserve might unleash a series of events that doom all of the flora and fauna of the northern wilderness, that’s sufficient reason to prevent drilling even if the chances of this outcome are tiny.

Sunstein points out, however, that “the Precautionary Principle is literally incoherent, and for one reason: There are risks on all sides of social situations. It is therefore paralyzing; it forbids the very steps that it requires.”

Indeed so. A proponent of ANWR drilling can turn the precautionary principle’s logic around by pointing

out that there's a chance, however small, that *failure* to drill on ANWR might lead to catastrophe.

No matter how loudly it's done, no such illogical posturing for (and against) regulation can substitute for sound cost-benefit analysis. A regulation cannot be justified on the possibility that some extreme scenario may materialize. Instead, sound estimates of the probabilities of various outcomes, along with estimates of the costs and benefits of those outcomes, are the intelligent way to determine what actions are appropriate.

Sunstein is correct about this, and he makes a strong case that "assignment of monetary values to risks is far more plausible and intuitive than it might seem." I agree completely—if government is going to regulate, it should do so on cost-benefit grounds.

But how wide are those grounds? In my opinion, nowhere near as wide as Sunstein believes them to be. First, as Elinor Ostrom's research shows, people are surprisingly creative at arranging their affairs voluntarily to solve many problems of a kind that too many of us simply assume can be solved only by government. When the robustness of private arrangements is overlooked (as Sunstein tends to do), the benefits of government regulation are overestimated.

Second, people tend to abuse power. Although Sunstein sometimes seems aware of Public Choice concerns, too often he writes as if they are either nonexistent or exaggerated. When the dangers of government-power abuse are overlooked, the costs of government regulation are underestimated.

So in my view, the soundest cost-benefit analysis counsels against almost all government regulations and in favor of reliance on the law of property, contract, and tort. Put another way, cost-benefit analysis counsels in favor of *laissez faire*.

Sunstein would disagree, for two reasons. First, he overestimates the benefits and underestimates the costs of regulation. Second, and more interesting, Sunstein is a legal positivist—he believes that all law is created by government. From this belief it's a short step (which Sunstein seems to take) to the conclusion that all law is consciously chosen.

This isn't the place to challenge legal positivism. I mention it only because it is the largest flaw in all of Sunstein's work.

Still, *Laws of Fear* is a solid work, informed by sound economic understanding—including many useful applications of behavioral economics. I recommend it to readers of *The Freeman* with more enthusiasm than I expected I would have. 

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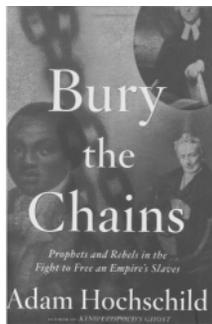
Bury the Chains: Prophets and Rebels in the Fight to Free an Empire's Slaves

by Adam Hochschild

Houghton Mifflin Company/Mariner Books • 2005/2006

• 468 pages • \$26.95 hardcover; \$16.00 paperback

Reviewed by Becky Akers



Does anyone today think slavery a good thing? Probably only politicians and bureaucrats would defend some men's lording it over others, living off their labor, and ordering them about; everyone else grasps the inherent immorality. This renders modern screeds against slavery not only needless but sanctimonious. Perhaps that's why *Bury the Chains*, an otherwise fascinating account of the anti-slavery movement in late eighteenth- and early nineteenth-century Britain, ultimately annoys: the author's piety seeps from its pages.

Adam Hochschild is a journalist who writes for the *New York Times Magazine* and *Mother Jones*, which he co-founded. That explains his piety. It may even explain his inability to place himself in the age he surveys, which he resolutely judges by modern standards and finds wanting. For starters, he sees democracy as Leviathan's worst guise; that eighteenth-century Britons (and Americans) disdained democracy as mob-rule earns his censure, however excellent their reasons against it. Not that Hochschild considers or even seems aware of those reasons. Instead, he assumes that a universal British franchise would have demolished the slave trade years before Parliament did and that the lack of said franchise is almost as tragic as slavery itself.

Likewise his attitude toward Christianity. However it may disconcert modern agnostics, Quakers and devout,

Bible-believing Christians led the fight against slavery. Hochschild seldom tries to understand their convictions or ideas and how those inspired their actions. Rather, he condemns them for “hypocrisy” and for not going far enough in their endeavors; that is, for not behaving as modern socialists would. The famous hymn writer John Newton is Hochschild’s most egregious victim. Newton briefly captained slave ships after his conversion to Christianity, and while God may have forgiven him, Hochschild certainly hasn’t. He repeatedly ridicules Newton for obsessing over his relationship with the Almighty instead of the abolition of slavery.

Those flaws aside, *Bury the Chains* is a riveting read. It will resonate with anyone who hates the state because of the parallels between slavery and statism, anti-slavers and anti-statists. Like us, the anti-slavers confronted a pervasive, unquestioned, and even beloved system. Hochschild emphasizes that slavery reigned everywhere when the activists began their campaign, with most of the world’s contemporary and historical peoples held in bondage of one kind or another. And like statism today, slavery was dismissed as inevitable and natural.

Those anti-slavery crackpots who bothered themselves about the justification for such an obviously wicked scheme found that they bore a staggering burden of proof, as do we who oppose Leviathan. Most people then were as willing to excuse slavery’s horrors as people today excuse the state’s. Perhaps this was because slavery, like the state, offered a road to riches; those directly involved in the slave trade could reap enormous wealth, as can modern politicians and their cronies. A host of others, indirectly connected, found their fortunes tied to slavery’s success, even as corporations that manufacture war materiel, prison and school supplies, and the rest, depend on the state for their profits.

The similarities end, however, when we come to the anti-slavers’ rate of progress and eventual victory. It took them only 20 years to proscribe the African slave trade and another 30 years to outlaw nongovernment ownership of one human by another.

Hochschild’s subject is dramatic by its nature, and his novelistic style enhances it. He often departs from his story to introduce us to such characters as William Wilberforce, the emaciated member of Parliament whose zeal against slavery almost literally consumed

him, and Granville Sharp, remarkable alike for his music and his hatred of slavery. Sharp lived with his seven musical siblings aboard a barge that was towed along the Thames and other waterways while they performed; Handel’s *Water Music* comes by its name honestly.

Equally intriguing are Hochschild’s explanations of the customs and technology of a vanished world. We learn that the slops bucket in a printer’s shop was used to clean the type because the ammonia in urine dissolves ink, and that female slaves performed the back-breaking field work of cultivating sugar cane since more valuable males were saved for skilled labor. We read about Toussaint L’Overture, a national hero in Haiti because he led a rebellion among the slaves. Tragically, Toussaint became as big a tyrant as the masters and overseers he deposed. No man, black or white, slave or free, seems able to withstand the toxin of political power.

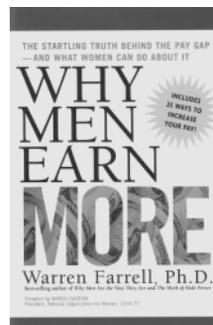
Because *Bury the Chains* narrates an obscure chapter in the struggle for freedom, it ought to cheer all who love liberty. It’s too bad, then, that its sanctimony and politically correct subtleties overshadow the joy. *Bury the Chains* greatly exasperates while it educates. 

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Why Men Earn More

by Warren Farrell
AMACOM • 2005 • 233 pages • \$23.00

Reviewed by George C. Leef



Warren Farrell’s *Why Men Earn More* is a businessman’s explanation for an economic phenomenon that gets many people up in arms. The book won’t be popular among the purveyors of the notion that the so-called gender earnings gap is due to a defect in the economy because Farrell gives no credence to that idea, so popular among feminist scholars. Farrell provides the reader a dispassionate—and often amusing—look at the differences between men and women in the market and shows that there are perfectly rational explanations for the fact that men who are

fulltime labor-force participants on the average have higher earnings than women. In sum, the book is a crushing refutation to the contention that capitalism is inherently unfair to women and that government must promote “gender justice.”

This is not unexplored terrain, of course. There have been academic studies on the differences between men and women in the labor market for decades. What Farrell does so well is to package that information, mixed generously with his own observations and experiences, to create a highly readable, nontechnical analysis that should persuade all but the most die-hard exploitation theorist that the attacks on capitalism are unwarranted.

Farrell’s big point is that men tend to make decisions about employment—including such key factors as hours per week, risk, and the possibility of mandatory relocation—that lead to higher pay, but entail offsetting difficulties. Women, conversely, tend to make choices that lead to lower compensation, but with offsetting advantages. Accordingly, there are ways for individual women to increase their earnings, but they require individual action, not government intervention.

Speaking of government intervention, Farrell easily disposes of the feminists’ pet solution to the earnings gap, namely “comparable worth” legislation. Here is his discussion: “The problem with comparable worth is that it creates higher pay for higher fulfillment positions that everyone wants and lower pay for lower fulfillment positions that are hard to fill unless we pay more. Thus, it leaves us with few people to build highways, bridges, or homes; pick up garbage, clean sewers, mine coal; or do most any job that employs almost all men. Why? Test this out yourself. Imagine that for a month you have neither had your garbage picked up nor an opportunity to read about new anthropological discoveries. Which would you pay more money to remedy?”

That’s the way the whole book is: sharp, clear, relentlessly logical.

The willingness to accept risk is one of the main reasons men on average earn more. To get people to take jobs where there is a danger of injury, employers have to offer higher pay. Biology seems to have hard-wired men to be more willing to want to make that tradeoff than

women. Jobs in mining, fishing, forestry, and more are overwhelmingly male despite governmental antidiscrimination rules. Farrell cites the chilling work on an Alaskan floating cannery to help make his point. Very few people will work under those conditions, hardly any of them female.

My favorite pages occur near the end of the book when Farrell turns to policy questions. He argues against the affirmative-action crusade for greater equality in the numbers of men and women in occupations where men have historically been dominant. His reason is that it’s anticompetitive: “Affirmative action effectively adds a tax to domestic labor that makes it more difficult to compete with foreign labor. . . . Whenever the government requires companies to pay workers more than the market would bear, to pay for long vacations and extraordinary health benefits, the unemployment rate soars and the country risks the political rebellion, now happening in countries like France, Germany, and Sweden.”

Quite right, and the reader may notice that Farrell has given a sound argument for abolishing *all* labor-market interference.

While Farrell does an excellent job of showing that women can do better in today’s labor market without statist interventions, the book would have been stronger if he had paid some attention to the ways in which the status quo is biased against workers in general. Specifically, our economy is constricted at many points with laws and regulations that make it difficult for newcomers to enter the market and compete. Women entrepreneurs could find many new opportunities for profitable businesses if we had a truly free market that didn’t protect existing businesses (mostly owned by men) against competition.

Why Men Earn More is a potent antidote to the victimhood of the women’s movement. Women (and men) who read it will learn much about the way business decisions are made and will come away with a strong sense that the spontaneous order of the free market works in the best interests of all.



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