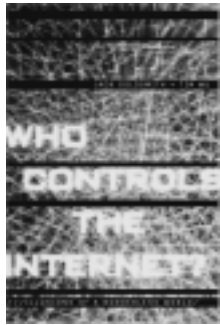

Book Reviews

Who Controls the Internet? Illusions of a Borderless World

by Jack Goldsmith and Tim Wu

Oxford University Press • 2006 • 226 pages • \$28.00

Reviewed by Andrew P. Morriss



Who Controls the Internet? is a thoughtful, clear, and engaging book written by two distinguished law professors. The authors do a major service to discussions of the Internet by debunking the 1990s “information just wants to be free” meme with their lucid account of how gov-

ernments fought back to restrict the Internet’s impact.

Along the way Goldsmith and Wu give a thorough critique of the Principality of Sealand, a World War II anti-aircraft platform off the coast of England declared an independent country by its self-proclaimed Prince Roy. Sealand is revealed as a silly idea, but the larger story of governments’ response to technologies that threaten them is depressing reading for those concerned with liberty.

Professors Goldsmith and Wu, who teach at Harvard and Columbia law schools, respectively, provide a good history of the Internet and describe the technology behind governments’ response. In particular, the authors focus on governments’ use of commercial technologies that enable websites to identify the location of visitors. Doing so makes the website more valuable to users (information can be customized to your location and helps prevent fraud) and to advertisers (ads can be bought for specific geographic areas). Unfortunately, it also offers governments an opportunity to censor and monitor. The technology isn’t perfect, but as the authors note, location identification need not be perfect to be effective.

Another vulnerability of the Internet that governments can exploit is the payment system. So long as payments are made through a few large systems (VISA,

MasterCard, American Express, Discover, PayPal), a lot of control can be obtained by regulating just a few chokepoints. The Internet gaming industry discovered this, as did sites selling cigarettes online to avoid state tobacco taxes.

The strongest, and most depressing, portion of the book is its thorough description of the evolution of the Internet in China. Goldsmith and Wu detail how American Internet companies like Cisco, Yahoo, and Google have assisted the Chinese government in its efforts to censor information it does not want Chinese citizens to see.

But if they debunk the idea that the Internet would allow “routing around censorship,” Goldsmith and Wu fall into the opposite trap of imagining that the contest between freedom and coercion is a simple two-period contest: Internet pioneers innovate, then governments respond. Governments win because they move last. But the battle for liberty has no end—eternal vigilance has been called the price of liberty for precisely that reason.

The book would also have benefited from analysis more explicitly based on Public Choice principles. Looking at the course of copyright-infringement litigation and legislation, the authors persuasively argue that neither the lack of quick congressional action to enhance legal protections for copyright holders nor the lower-court *Grokster* decisions that rejected music-industry positions against file sharing reflected “an absence of power.” Instead they were the result of “an intragovernmental discussion over how to balance conflicting interests in technological innovation and the protection of authors’ rights.” But it wasn’t really a “discussion” in any intellectual sense of the word; what went on was a battle of interest groups that took time to play out. The authors note that “[m]any believe” that the Sonny Bono Term Extension Act, which extended existing copyrights, “aided the highly organized and ailing recording industry at the public’s expense.” This is accurate only in the sense that “many believe” that gravity causes things to fall to the earth when dropped. There is no plausible alternative explanation for the blatant rent-seeking of the Sonny Bono Act. More attention to interest groups’ roles would have strengthened the book considerably.

Perhaps the most frustrating aspect of the book is its excessively state-centered view of law. For example, the authors label government-provided law as “real law” in contrast to customary legal systems. But they’ve actually got it backwards, and familiarity with the work of F. A. Hayek or Bruno Leoni—neither of whom are mentioned in the book or cited in the index—would have been a great help to the authors.

The efforts to make the book more accessible for a popular audience also led to some odd illustrations. There are a few excellent diagrams that enhance the discussion and clarify descriptions, but these are outnumbered by the various photographs that add nothing to the book. Despite these flaws, however, *Who Controls the Internet?* is an important contribution to the debate over the role of technology in advancing (or harming) the cause of liberty.



Andrew Morriss (morriss@law.uiuc.edu) is H. Ross & Helen Workman Professor of Law at the University of Illinois.

Econospinning: How to Read Between the Lines When the Media Manipulate the Numbers

by Gene Epstein

John Wiley & Sons • 2006 • 246 pages • \$24.95

Reviewed by Joseph Coletti



As a columnist for the *New York Times*, Paul Krugman has sometimes invented his own statistics or tortured real ones to make his point. Whether it is the fiscal health of Social Security and Medicare, how we count the unemployed, or the general condition of the economy, Krugman has

often tried to drive readers to accept his conclusions with questionable data.

Gene Epstein’s book on the misuse and abuse of economics and statistics, *Econospinning*, devotes a lot of attention to Krugman, but the author’s critique of the media expands to include the *Wall Street Journal*, the *Economist*, and MSNBC’s *Squawkbox*. Epstein also gives special attention to Barbara Ehrenreich’s *Nickel and Dimed*, Steven Levitt and Stephen Dubner’s *Freakonom-*

ics, and the populist silliness of Lou Dobbs. Epstein is the economics editor for *Barron’s* and author of the “Economic Beat” column for that weekly sibling of the *Wall Street Journal*. He really knows his subject.

Former Congressional Budget Director Douglas Holtz-Eakin said, “Every dollar of federal spending has a cost. It makes no difference if the payment is charged to the general fund, a trust fund, or an enterprise fund.” Epstein’s intent with this book is to show that every badly used economic statistic also has a cost. He defines econospinning as “the sort of journalism that shapes the data around a predetermined story, rather than the story around the discoverable data.”

To make his points Epstein includes long quotes from the sources, italicizes the troublesome parts, and often dissects them bad idea by bad idea. He provides his own calculations to show what was wrong in the original and describes how to properly interpret the economic statistics under discussion.

Half the book is dedicated to employment statistics and their misuse. This focus is necessary, he writes, because these statistics are “of great concern to policy makers, traders, investors, and humanists.” His writing here is illuminating, as he explains the differences between statistics available from the establishment and household surveys, and how they can be usefully compared. In doing so, he undermines both Krugman’s claims about long-term unemployment and the *Journal’s* claims about the extent of self-employment.

Epstein attributes the increase in long-term unemployment to changing demographics in the workforce. Women are becoming more career-oriented, which means they are becoming unemployed less often, but take longer to find work when they do. Meanwhile, the self-employed are more likely to show up in employment statistics than the *Journal* suggests.

Such statistical insights can help make for better consumers of economic news, even if it does not improve the quality of economic reporting. Given the difficulty of such reporting, however, Epstein would like to see less frequent output from government data gatherers. They look at the size of the economy only once a quarter and often revise that twice, but they report employment and unemployment statistics each month. Reporters just report the change in the unem-


ployment rate, however, and pay little attention to the previous upward or downward revisions in the numbers and what those revisions mean for the actual state of employment in the country.

Epstein's sharp analysis is also useful in his chapters on corporate profits and workers' returns from productivity gains. He shows, for example, that changes in compensation over time have moved nearly in tandem with the tightness of the labor market. That shouldn't surprise readers of *The Freeman*, but confounds economists such as Krugman and Berkeley's Brad DeLong.

The increase in corporate profits turns out to be a story similar to long-term unemployment: it reflects a structural change in the economy rather than higher profits at individual companies. There are more corporations in the economy, and more of them are financial-service companies, which tend to have higher profit margins. Combine those trends and the result is corporate profits making up a larger portion of GDP than ever before. Contrary to the writers who claim to see rising profits as a danger, Epstein observes that this does no harm to anyone. Scare stories about corporate profits are a staple in many publications, but after reading *Econospinning*, the reader will be able to sort out fact from fantasy.

Given the popularity of *Freakonomics*, it is not surprising that Epstein devotes a chapter to refuting two of the more provocative claims from that book: legal abortion reduced the crime rate and real-estate agents do not negotiate well for their clients.

The demolition job Epstein does on Ehrenreich is utterly devastating. Lou Dobbs fares no better.

Econospinning is worth reading for the clarity of thought Epstein brings to his subject. The book is a much-needed volume on the ways economic journalists can lead people astray with the misuse of data. 

Joseph Coletti (jcoletti@johnlocke.org) is a fiscal policy analyst at the John Locke Foundation.

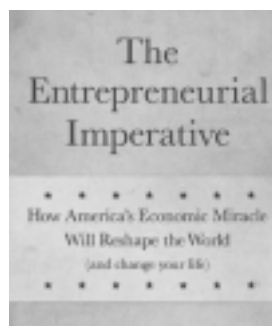


The Entrepreneurial Imperative: How America's Economic Miracle Will Reshape the World (and Change Your Life)

by Carl J. Schramm

HarperCollins • 2006 • 195 pages • \$24.95

Reviewed by Frederic Sautet



Carl Schramm is president and CEO of the Kauffman Foundation, an organization that sees itself as the main center for the promotion of entrepreneurship in the United States. *The Entrepreneurial Imperative* aims at spreading this message: entre-

preneurship is America's "comparative advantage," and the economic model that fosters it needs to be better known and adopted everywhere. While having a comparative advantage in entrepreneurship is not an adequate description of America's situation, the author is correct in saying that entrepreneurship has been crucial to economic growth and progress in the United States.

Schramm's book covers four main areas regarding entrepreneurship: personal ethics, politics, economics, and policy. Although the general thesis of the book is well argued, the analysis that supports the message is less convincing. Moreover, the author's policy ideas are disappointing.

Anyone versed in classical liberalism will agree with Schramm's view of ethics and politics. He defends individual freedom, responsibility, personal achievement, and economic independence. Without a well-defined personal ethos, as Schramm recommends, entrepreneurial activities are unlikely to succeed. He also strongly urges Americans not to fall prey to the critics of big businesses because the interest of businesses is, most of the time, to serve customers as well as they can, not to defraud them. Schramm correctly sees economic freedom as the main reason for America's success.

Difficulties arise, however, when one looks at the economic analysis behind his ethical and political views. While Schramm undoubtedly believes that free markets by and large work best, some readers may be less comfortable with his theoretical understanding of

entrepreneurship. Basically, there are two different views of entrepreneurship in the literature. On the one hand, some writers define entrepreneurship as any action related to starting a business—this is the behavioral approach. On the other hand, it can be defined as the recognition of an opportunity—the cognitive approach. It is not clear where Schramm stands in this debate, as he borrows from both approaches. However, it is difficult to subscribe to both explanations because they're arguably mutually exclusive. Moreover, the policy implications that stem from each of these views are opposed. The behavioral approach leads to "active" government policies (such as guaranteed loans for small businesses), while the cognitive one leads to "passive" policies (such as better enforcement of contracts).

This theoretical confusion can be found in Schramm's policy recommendations, where education is his main focus. The central difficulty I have with his emphasis can be put simply: *one cannot learn to become an entrepreneur*. The problem is that Schramm sees entrepreneurship as being mostly about starting up and managing a business rather than discovering new opportunities for profit. The former can be taught, but without discovery first, there cannot be entrepreneurship in its true sense. Experience and knowledge help someone to notice opportunities others have missed, but nobody can know in advance what knowledge and experience will be needed. It follows that, contra Schramm, it is impossible to know what education is needed to become entrepreneurial.

To be fair to the author's analysis, he argues that universities don't provide the right education to *help* people become entrepreneurs. Instead of providing highly career-oriented courses, as they do now, he contends that they should provide classes that teach general problem-solving capacity. There is some merit to this, but teaching them problem solving isn't going to change students into people who identify and seize opportunities.

Another implication of his theoretical confusion is that Schramm dedicates only a few pages to what really matters for entrepreneurship—the role of institutions. This is unfortunate considering the policy mess existing at the local and federal level in the United States. The way to foster entrepreneurship is not by trying to teach it, but rather by making sure the institutional

conditions for its emergence are as good as possible. With economic freedom, where barriers to entry into business are low (such as low taxes and flexible labor markets), a great deal of entrepreneurship will spontaneously arise.

While Schramm correctly states that freedom is the key to an entrepreneurial economy, he doesn't fully grasp what this means in practice. He only briefly mentions taxation and barely touches on the role of property rights and regulation, where bad policy can and does strangle entrepreneurship. Worse still, he favors active government policy, proposing an increase in tax money allocated to seed new entrepreneurial projects. That is a recipe for wasted investment. In view of what he says elsewhere on the problems of bureaucracy, it is hard to believe that Schramm seriously considers public financing for entrepreneurs a beneficial policy.

Schramm's central message is important: entrepreneurship matters a great deal to prosperity. Unfortunately, his ideas for promoting it are mostly off target.



Frederic Sautet (fsautet@gmu.edu) is a senior research fellow at the Mercatus Center.

The Green Wave: Environmentalism and Its Consequences

by Bonner Cohen

Capital Research Center • 2006 • 209 pages • \$14.95 paperback

Reviewed by George C. Leef



Environmentalists like to be portrayed as kindly, concerned people who just want to make sure that earth will remain a pleasant home for all living things. For the most part, they get their wish. Stories in the mainstream media that question their motives, call attention to their often nasty tactics, or point out that environmentalist policies frequently have harmful effects are as rare as manatees in Montana.

Fortunately, Bonner Cohen's book *The Green Wave* is at hand to show that there are a lot of "inconvenient truths" about the environmental movement. He argues

convincingly that the environmental movement should be understood as just the most recent front in the war that authoritarians have long waged against private property and free enterprise. Cohen writes, "Along with more traditional goals like redistribution of income to secure 'equality,' activists seized on the environment as an issue with enormous potential to influence young educated urbanites who felt guilty about their affluence. Their aim: to bring about the reordering of national and global priorities." The "greens" talk about saving the planet, but what is really at issue is plain old *power*. They want it to control a wide array of human activities.

Just as Marxism used simple-minded but emotionally appealing catch-phrases to win converts, environmentalists try to sway people with similar notions. Instead of "exploitation of labor," the greens talk about "the precautionary principle." According to that "principle," the government should prevent people from doing anything (such as introducing a new technology) until we are absolutely certain that it won't have any adverse impact on the environment. Cohen shows how the environmental movement has employed this superficially reasonable idea to oppose many innovations. (As he points out, it really is extremely *unreasonable* since if we waited for proof of absolute safety before acting, we would never be able to do anything.) Genetically modified crops are a prime example. How do we know, green activists demand, that gene-spliced tomatoes won't wreak havoc among insects that might feed on the foliage?

By using their well-rehearsed playbook of media, political, and judicial tactics, the greens have managed to delay and even prevent the use of genetically modified crops and other innovations. They prefer the reality of human hunger to any threat to "biodiversity," no matter how speculative.

Cohen shows how environmental activists resort to junk science over and over in their quest to frighten the public and governmental officials into acceding to their demands. They recognize the truth in the adage that *bad news sells* and never hesitate to trumpet any scientific research, no matter how dubious, that purports to demonstrate that disaster will occur unless people are prevented from doing X. Compliant reporters oblige by incorporating environmentalist

press releases into their scare stories, hardly ever bothering to assess the reliability of the information. Even if it later turns out that the research is completely bogus, no matter—the public will remember the frightening headlines and few will ever read about the refutation of the research behind them.

Something that we really should be frightened about, Cohen argues, are the various plans to put America increasingly under the environmentalists' control. Perhaps the most menacing is the Wildlands Project, which would use federal regulations to transform the country "from a place where 4.7 percent of the land is wilderness to an archipelago of human-inhabited islands surrounded by natural areas," he writes. This plan is the brainchild of Earth First! zealots who regard human beings as an affront to the beauty of the natural world and want to greatly decrease our impact on the world. Under Wildlands, large areas of the United States would be off-limits to any but the most primitive kinds of human activity. Sure, it sounds crazy. Our standard of living would plunge, and the population would decline greatly, but the animals and trees would supposedly be happier. And of course the environmentalists would be happier if they could get the government to exercise its power to bring about their vision of paradise.

Cohen reports that a bill to start Wildlands has been introduced in the House of Representatives and has substantial bipartisan support. The whole monstrous project won't become law any time soon, but after reading *The Green Wave*, you know that it's a mistake to underestimate the patience and deviousness of the environmental lobby.

Environmental protection and preservation are possible under a system of private property and individual freedom, but the powerful people and organizations within the green movement are not interested in that. They don't want to have to *persuade* people to go along with their wishes. They want the government to *force* them to. That's why they're just as dangerous as all the other coercive utopians who have trod upon people for millennia. Thanks to Bonner Cohen for making that clear.



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