

# Understanding the Processes of Prosperity

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***The Mystery of Capital:  
Why Capitalism Triumphs in  
the West and Fails  
Everywhere Else***

Hernando de Soto

Basic Books, 2000, 276 pp.  
US\$27.50 ISBN 0465016146

Most human beings in most societies in history have lived in poverty, generally in grinding poverty. Over the last two centuries, a remarkable thing has happened. For the first time in human history, societies have been created in which most people live prosperous lives.

Those of us who live in these unusual societies so take our mass prosperity for granted that much commentary seeks to blame these successful societies for mass poverty elsewhere—thereby blaming the exceptional for the normal. In *The Mystery of Capital*, Peruvian thinker Hernando de Soto provides a powerful explanation for the peculiar triumph of the West.

The explanation is provided by looking at history and at practice. It is economics which starts with observation—very much in the style of Nobel Laureate, Ronald Coase. Indeed, the book itself begins with a quote from Coase. The connection goes further, for the book is about property rights. More particularly, it is about systems of property rights which reduce transaction costs—identification of the significance of which is Coase's great contribution to economic thought—and thereby liberate assets so that they can become capital.

De Soto makes a very powerful point, based on results from his international network of researchers. The poor are not poor because they lack assets. They already have assets—de Soto estimates that if the US increased foreign aid to 0.7% of national income, it would take the world's richest economy 150 years to transfer to the poor of the world income equal to the value of assets they already held. The poor are poor because they lack access to capital, as they cannot turn their assets into capital.

The reason they lack access to capital is due to the failure of property law in their countries. In Lima, Peru, for example, it took 289 days to get the legal approvals required to set up a small textile business. In Haiti, it takes 19 years to get legal title to land—and there is no guarantee that one will retain such title. In the absence of sensible property rights laws, people live extra-legally, outside the 'bell jar' of formal legality. But that denies them access to credit and loans and forces them to trade, for important items, only with people personally known to them. All this massively reduces their economic prospects.

De Soto identifies the characteristics of a good property rights system. A well-ordered system of property rights:

- fixes the economic potential of assets;
- integrates dispersed information;
- makes people accountable;
- makes assets fungible;
- networks people; and
- protects transactions.

Western societies developed property rights systems with these features, other countries did not. De Soto points out that this achievement of Western societies is relatively recent. Colbert's technocrats in France executed thousands of extralegal manufacturers. Adam Smith bought goods in black markets outside the control of the city guilds, smuggling them past the guards at the city gates.

De Soto uses the US as a case study of how extra-legals were brought within a legal property system. This is very important for de Soto, as his purpose is to say to the developing world 'you can get there from here'. The proof is that the US did.

De Soto goes through how complex the property laws were that the American colonies inherited from Britain, how there were many overlapping claims to single pieces of land, how many settlers were squatters not properly included within the formal property system and the conflicts over property rights that resulted. Slowly, under pressure of events and through the operation of democracy, the formal property laws were brought into alignment with what people were actually doing. People came within the formal property laws because those laws reached out to incorporate them and what they were in fact doing.

A particularly revealing tale is how the gold rushes saw miners develop their own effective property laws which the US state eventually simply recognised. This pattern occurred throughout the 19th century.



When the US Supreme Court, in *Green v Biddle* (1821), made a ruling greatly hostile to the interests of ordinary settlers, the ruling was simply ignored (or even specifically repudiated) by local judges and legislatures who had to deal with the practical realities on the ground (and angry voters and neighbours).

The normality of mass poverty, and of high transaction costs, poses a disturbing thought—that the natural tendency of human politics is towards increasing transaction costs. After all, there is a lot of income—both financial and psychic (moral vanity and other status games)—from raising transaction costs. Occupational health and safety, environmental issues, employment security; the justifications for raising transaction costs are endless. Demands for social justice are, like all wants, just conjurings of the mind and so unlimited. When one compares the operation of wage arbitration systems, or indigenous title, to the characteristics de Soto identifies of good property laws, they do not stack up well. And our labour market has more than a few ‘extra-legals’ within it.

How does one combat these tendencies? The original success of Europe was fundamentally based on the failure to unify. Competition between princes and states forced restraint on the possessors of the coercive power of the state. *Globalisation*—the deepening of international markets—provides a powerful weapon against the rent-seekers. *Internationalisation*—the enmeshing of states in ever more international treaties and agreements—easily provides tools for them. Which is why so many prominent rent-seeking groups, starting with union officials and green advocacy groups, hate globalisation but embrace internationalisation.

But clear understanding of the processes of prosperity, and what is at stake, is also a great weapon in the endless fight against the rent-seeking enemies of prosperity. By providing such clear understanding, de Soto’s powerful and immensely readable book is a very great weapon in the armoury of freedom.

**Reviewed by Michael Warby**

***Exasperating Calculators:  
The Rage Over Economic  
Rationalism and the  
Campaign Against  
Australian Economists***

William Coleman  
and Alf Hagger

2001, Macleay Press

336pp, ISBN 1 876492031

The American conservative William F. Buckley Jr. once remarked that he would sooner be governed by the first 2000 names in the Boston phone book than by the 2000 members of the faculty of Harvard University.

Readers of *Exasperating Calculators*, William Coleman and Alf Hagger’s highly enjoyable demolition of academic and intellectual contributors to the economic rationalism controversy, will well understand what Buckley was getting at.

This is the best exposé of academic incompetence since Alan Sokal’s famous *Social Text* hoax, and his follow-up book with Jean Bricmont, *Intellectual Impostures*. Readers may remember that Sokal successfully submitted a nonsensical parody article about physics and

mathematics to the academic cultural studies journal *Social Text*, greatly embarrassing its gullible editors when the hoax was exposed.

When Michael Pusey’s book *Economic Rationalism in Canberra* came out in 1991 some might have hoped that Pusey was a Sokal-like hoaxer. What better way to expose the dismal standards of academic publishing than to submit an atrociously written, ignorant and illogical text to Cambridge University Press and see if you could get away with it?

After ten years, though, all hope is gone that Pusey will reveal himself as a hoaxer. All that can be done is to show, as Coleman and Hagger do in a chapter called ‘The Pusey Event’, just how bad his book was in its analysis of Treasury economists’ views and his ‘iron determination to make something out of nothing’.

Joining Pusey on the left-wing dishonour roll are Hugh Stretton, ‘the undisputed master of the utterly mysterious and absolutely unaccountable factual claim’; Eva Cox for her ‘misrepresentation of what Economic Rationalism is all about’; the Australia Institute’s Clive Hamilton, whose ‘florid irrationalism will impress few and dismay many’; and the late Russell Mathews, whose ‘performance is perhaps the most singularly fact free of any of them’.

Fault is also found with John Ralston Saul, John Gray (those two making cameo appearances for the favour their work finds here), John Quiggin, Fred Argy, Peter Self, and H.C. Coombs. The third way writers Mark Latham and Anthony Giddens are chastised for repudiating economic theory.

While most of these people identify with the left, the authors argue that economic irrationalism, as they call the opposition to economic rationalism, is fundamentally a conservative movement in its nostalgia for the recent past. Some economic irrationalists would not object to the conservative label.

The main targets in the ‘Enter Stage Right’ chapter are, as you might expect, Robert Manne, John Carroll and B. A. Santamaria. Manne makes one remark to which Coleman and Hagger are ‘willing

to assent, without qualification': to wit his admission that he 'has no competence in economics whatsoever'. The authors spend several pages showing that in this self-assessment, if not many of his other claims, Manne is entirely accurate.

John Carroll, like Manne, doesn't let ignorance restrain him. His language is over-the-top, yet his continual errors suggest that a more cautious approach would get him into less trouble. B.A. Santamaria is posthumously made to look silly, the authors quoting his May 1991 prediction that 'the US economy is presently exposed to the most powerful combination of recessionary forces since the Great Depression of the 1930s'.

Economic irrationalists are not the only people faulted for their performance over the last decade. Economists are also criticised for their handling of the economic rationalist controversy. As a group they were often associated with economic rationalism, yet did little to defend themselves. There is advice on what they ought to have done, and still should do. Coleman and Hagger admit this is all with the benefit of hindsight, and while they, economists both, have now made an outstanding contribution to the controversy, I don't recall either being involved before 1999.

Lots of people should have done things differently, but why did the controversy go the way it did? The first point to keep in mind is that the beliefs supported by the economic irrationalists are nothing unusual in Australia's history. Until the 1980s they were the occasionally disputed conventional wisdom.

Coleman and Hagger lament declining public support for privatising Telstra, but even the peak figure they cite is only 40%. A 1999 Morgan poll found that 80% of voters support quotas on at least one commodity, up 16% since 1962. You can find contradictory polls, and even contradictions within polls, but at no point could you say that the Australian electorate clearly understood and supported economic rationalist type policies, even if they voted in governments that did.

The easiest way to convince people is to appeal to pre-existing belief, and that is what the irrationalists did, aided by

confusion about causes of the early 1990s recession. And it is, as Coleman and Hagger note, not hard to persuade people to be in favour of 'preference and privilege' for themselves. The questions raised by a book like *Exasperating Calculators* are why were academics so deeply involved, and why was their contribution of such a low intellectual standard?

The answers are many and complex, and *Exasperating Calculators* provides only some. My view is that structural factors explain much. Academics in Australia are historically, and still for those in the humanities and social sciences, near-total dependents on the state to pay their salaries and protect them from competition. They think they have a vested interest in supporting state investment and control (though I've argued elsewhere all but the most incompetent would actually be better off in a market system).

The waves of university expansion in the 1960s and 1970s meant that the modish leftism of incoming staff set the campus culture, and relatively low staff turnover helped entrench it. Declining salaries and conditions compared to the professions in the 1980s and 1990s made academic life less attractive for those with options in the commercial world, further increasing the proportion of staff with left-conservative views.

This creates what Coleman and Hagger call 'a snug and sealed intellectual community; a community where everyone seems to agree with everyone else'. Disagreements do occur within the academic humanities and social sciences, but their fragile unity appears to come partly from agreed upon enemies, economic rationalists prominent among them. This is how Robert Manne went from being a member of that suspicious species the anti-communists to being the Melbourne academic left's pet conservative in less than a decade.

This sealing of the academic community has serious consequences for intellectual standards. Since almost nobody within the academic humanities and social sciences has any economic expertise undetected clangers abound. Refereeing is useless, because the referees don't know any more than the original

author. Once mistaken information is in print other economic irrationalists quote it, perpetuating the error. Coleman and Hagger give examples of the irrationalists citing each other's intellectual blunders as authority, so that for the uninformed reader two wrongs do make a right.

This lack of internal criticism within academia allows individuals to get away with indifference to truth and logic, evident both in the economic irrationalists' original sloppiness and their failure to correct their own or each other's errors. Coleman and Hagger quote Pusey as saying 'I think of myself as a passionate (yes, passionate) anti-empiricist'. In which case he should shut up about empirical subjects. This attitude toward truth and logic is another reason why economic irrationalism sounds so conservative: 'It slights or scorns reason as a method of inquiry. So what is left to guide it? It is left only with tradition.'

*Exasperating Calculators* presents overwhelming evidence of academics' inability to aid understanding of important public policy issues. Economists did too little and their colleagues from other disciplines too much. The scandal, though, entirely surrounds the economic irrationalists. They did nothing more than add academic authority to Hansonite ideas. Having read large amounts of the economic irrationalist literature myself from the early to mid-1990s I can only concur with the authors' conclusion that it is worthless. There are debates you can have about ideas associated with economic rationalism, and *Exasperating Calculators* lists ten to start with. But to do this fruitfully you need a knowledge of economic facts and theories the economic irrationalists rarely if ever displayed.

**Reviewed by Andrew Norton**



**Judging Democracy:  
The New Politics of the  
High Court of Australia**

Haig Patapan

Cambridge University Press, 2000,  
\$39.95 pb.

ISBN 0 521 77428 4 (paperback)  
ISBN 0 521 77345 8 (hardback).

In this ambitious book Patapan seeks to undertake a general assessment of the 'politics' of the High Court's recent constitutional jurisprudence. While others such as Brian Galligan and David Solomon have exposed the 'old' politics of the Court as arbiter of the federal division of powers, Patapan is concerned with a 'new' politics in which the Court is consciously attempting to reshape and strengthen Australian democracy: to 'judge democracy', so to speak.

Developments such as executive control of Parliament and Australia's continuing lack of a Bill of Rights, have 'compelled' the Court to 'reconsider the adequacy of Australia's political institutions' (20, 179). This, Patapan suggests, has been expressed in a new approach to interpretation, in the implication of rights and freedoms, in the redefinition of citizenship and the structure of the representative system, in the development of indigenous rights such as native title, and in the protection of the integrity of the judicial process through the separation of powers (5-7).

In chapters dealing with each of these topics, Patapan seeks to discuss the nature,

problems and limits of the new politics of the High Court. As a political scientist, he attempts to describe the cases, rather than analyse and critique. He seeks to identify important themes, tensions and contradictions, rather than provide solutions. While none of his specific observations are particularly novel, the chief value of the book lies in the convenient manner in which it gathers the material. However, it is for this reason a difficult book to review: there is little to disagree with in its particular observations.

Patapan's fundamental question throughout is whether in judging democracy in these ways the Court has adopted a 'coherent and comprehensive democratic vision of the Australian polity' (6, 179). This is a crucial question because the Court has been exposed to the criticism that its new politics has been *improperly* political. Against such charges, one of its defences might lie in the consistency and attractiveness of its democratic vision. But what if no such vision emerges? And if no such vision has emerged, why is this so? Have institutional, practical and political constraints hampered the Court's efforts? These are the questions that Patapan seeks to answer.

For Patapan, the old politics of the High Court, derived from the *Engineers* case, positioned the Court as arbiter of disputes between the Commonwealth and the States. To do this effectively, it was important that the Court appear to be politically neutral. It achieved this through the use of literalistic and legalistic methods of interpretation. Such methods suggested that the role of the Court was merely to apply the text of the Constitution to each case at hand. Fundamental, therefore, to this judicial philosophy was an acceptance of the sovereignty of Parliament. Occasionally, the Court might find legislation to be unconstitutional, but when doing so, the Court was merely giving effect to the plain language of the Constitution; it was certainly not substituting its own political judgments for those of the legislature.

But in the new politics, Patapan maintains, the High Court has abandoned the legalistic view that its role is merely

to *declare* or *discover* the law. The Court now admits that it must *make* law, which is to admit to a role which is apparently legislative, provoking the criticism that the Court is engaging in judicial politics.

Moreover, Patapan argues, the sociological jurisprudence which the Court has adopted is 'predicated on the need to accommodate change', to keep the Constitution 'up to date'. And while the Court is to be guided by 'community values', these emerge from informed debate conducted within the 'deliberative community'; they are not the results of surveys and opinion polls (25). But to rely on informed opinion is to rely on *elite* opinion, and this explains much of the popular and political discontent with the new politics of the High Court.

The problem, however, is that Patapan overstates the case. As Sir Anthony Mason cautioned in the Foreword to the book, the High Court is not a 'monolithic institution', but consists 'at any time [of] a group of seven justices', each having 'individual judgment' and 'conflicting views'. These conflicting views have extended to different conceptions of the judicial function.

Thus while Patapan is correct to draw attention to statements (such as those of Sir Anthony himself) adopting the 'realist' view that judges 'make' law, the Chief Justice did not speak for the Court as a whole. For example, Sir Gerard Brennan very clearly insisted that implied rights are only to be 'uncovered', not 'made', and later explained that in constitutional law there is no 'leeway for judgment'—apparently distancing himself from Julius Stone's sociological jurisprudence in this respect. Even Justice McHugh, who admitted the legislative function of the judiciary, likewise insisted that the Court must restrict itself to 'political principles or theories' that are 'anchored' in the text or structure of the Constitution.

The central weakness of Patapan's book, therefore, is that the questions he asks presuppose that 'the Court' (as a whole) has adopted a sociological jurisprudence and a reformist agenda.

Time and again, Patapan imputes intentions and goals to the Court as an entire institution. But on the contrary, individual justices have their own approaches to these issues.

Patapan rightly draws attention to 'divergent and . . . irreconcilable positions' held by different judges (32) and his analysis of the cases accurately identifies many nuances and divergences. However, he interprets these as problems with sociological jurisprudence, rather than different conceptions of the judicial function.

Patapan is correct to point out that ideas like 'common law', 'implied rights', 'the separation of powers' and 'the sovereignty of the people' are capable of very different interpretations. He is also correct to

point to the tensions inherent in so many of the Court's decisions. But more than showing that the Court has failed to construct a coherent democratic vision, the evidence casts doubt on the proposition that 'the Court' ever set out to achieve such an objective.

Patapan does well to demonstrate the tension between the idea that the Constitution guarantees certain fundamental political rights and that the Constitution is to be interpreted in terms of 'current democratic standards'. Patapan identifies similar tensions in the way in which the Court incorporates native title into Australian property law.

Another tension consists in the admission that the Court 'makes' law and the Court's own insistence on the proposition that it must consist of unelected, tenured judges who are fully independent of the 'political' branches of government. But in canvassing the detail, Patapan's analysis serves to undermine the assumption that the Court has set for itself an ambition to judge democracy.

Towards the end of the book, Patapan says as much. He recognises that members of the Court continue to adhere to versions

of the declaratory theory in particular contexts (123, 140, 182). This, and the tensions inherent in many of the decisions, show that the Court does not hold a 'comprehensive view'; its decisions are 'a palimpsest of different constitutive ambitions' (184).

But most revealingly, Patapan concludes that 'perhaps' he was 'too ambitious' in searching for a 'comprehensive and consistent' vision of Australian democracy. He accepts that there were problems with postulating 'a single unified Court'. He points out that the Court's decisions are actually 'determined by the individual wills and desires of the justices and the coalitions they can muster to secure a particular outcome'. Thus while Patapan had sought to examine the 'mind, reasoning and opinion' of 'the Court', the evidence presents 'an accidental collage of thoughts and observations' (184-5, 189).

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Nevertheless, Patapan resists this conclusion. He continues, to the end, to insist that the 'extra-curial claims of the justices themselves' and the Court's occasionally radical departures from precedent 'indicated and promised a much more ambitious plan' (189).

The Court really did intend to set forth an overarching and comprehensive vision by which to evaluate and strengthen Australian democracy.

And what is this vision? Patapan briefly sketches a model of democracy which, he says, the Court has adopted—a broad-brush model in which republican ideals of popular sovereignty and fundamental rights are central.

But this is all, as he concedes, very general; too general, we might add. What is needed, in Patapan's words, is a 'more subtle evaluation'. Patapan has written a useful prolegomenon to such a task; but his book promised more.

**Reviewed by Nicholas Aroney**

**Greenspan:  
The Man Behind Money**

Justin Martin

Perseus Publishing 2000

284 pp, USD 28.00

ISBN 0-7382-0275-4

**Maestro: Greenspan's Fed  
and the American Boom**

Bob Woodward

Simon & Schuster 2000

270 pp, USD 25.00

ISBN 0-7432-0412-3

Alan Greenspan is an interesting figure from a classical liberal perspective. A strong advocate of free markets, Greenspan has at the same time successfully negotiated the pragmatic world of Washington to head one of its most powerful institutions, the US Federal Reserve. That Greenspan should be the subject of two books targeted at a general audience is testimony to his success in this role. As a central banker, Greenspan has assumed an unparalleled degree of national and international prominence. One could also argue that this makes him the world's most prominent market liberal.

Justin Martin provides the more detailed account of Greenspan's early years and the importance of his association with Ayn Rand. Greenspan was introduced to Rand's inner-circle by his first wife, Joan Mitchell, a childhood friend of Barbara Branden, who later wrote the kiss-and-tell *Passion of Ayn Rand* (1986). While Greenspan had already been strongly influenced as a student by economists with free market leanings such as Arthur Burns, Rand is credited with rounding out his commitment to liberalism with her moral



arguments for capitalism. Greenspan assumed a prominent role in Rand's 'Collective' equal to that of Leonard Peikoff (Martin, 44).

Rand's influence on Greenspan's early published writing is readily apparent. A 1957 letter Greenspan wrote to the *New York Times* defending Rand's novel *Atlas Shrugged* from its critics included characteristically Randian references to 'parasites who persistently avoid either purpose or reason perish as they should' (cited in Martin, 45). Greenspan was also an advocate of the gold standard and a critic of government-supplied fiat money, an often noted irony for the man who would become the world's most prominent central banker.

Greenspan was able to emerge from the implosion of the Collective in 1968 as both a friend and supporter of Rand, but only because Greenspan had 'selected the ideal emotional distance' from Rand and other members of her incestuous inner-circle (Martin, 52). It was not until an early 1980s visit from Barbara Branden in New York that Greenspan learned the truth about Rand's affair with Branden's husband and its disastrous consequences (Martin, 147).

Throughout this episode, Greenspan displayed important character traits that were to carry him a long way. Greenspan's dispassionate nature and personal integrity enabled him to rise above the emotional politics of the Collective. Greenspan has demonstrated an enviable ability to maintain close personal and working relationships with former partners. He is also a careful, deliberative thinker, with a mind open to alternative ideas and arguments.

His strong commitment to free markets and socially awkward manner made him an unlikely candidate to succeed in the political arena. Greenspan's initial brush with Washington also came from an unlikely source. Before committing to the study of economics, Greenspan pursued a career as a jazz musician. Fellow band member Lenny Garment subsequently become a partner with Richard Nixon in a law firm and involved Greenspan in Nixon's successful 1968 Presidential election campaign following

a chance meeting that year (Martin, 67-8). Green-span turned down the position of budget director in the Nixon Administration, largely for business reasons, although Greenspan claims he always felt uncomfortable with Nixon (Martin, 74).

However, Greenspan did serve on the Commission for an All-Volunteer Armed Forces, along with Milton Friedman, both of whom had been selected by Nixon's adviser Martin Anderson, also a former Randian. Greenspan and Friedman developed a good-cop, bad-cop routine on the Commission. Friedman would take the offensive for the anti-draft cause, skewering their opponents with his incisive polemics. Greenspan would then act as 'a dispassionate advocate when it was important to talk quietly, intelligently, and thoughtfully in order to bring people together' (cited in Martin, 79). Both men were instrumental in bringing about the final report's unanimous recommendation to end the draft.

Greenspan was asked to serve as Chairman of the Council of Economic Advisers under President Ford. Greenspan remained reluctant, again largely for financial reasons. He was also still working on his Ph.D, which Greenspan would later earn controversially by publication from NYU in 1977, having first commenced graduate studies in the late 1940s! It took a strong appeal from Arthur Burns to bring Greenspan on board. Greenspan was to become very influential in the Administration, not least because of his personal relationship with President Ford, but also because he proved surprisingly adept at negotiating the personal relationships that drive Washington. By the time of Ford's defeat in 1976, Greenspan had become an enthusiastic participant in Washington politics. During the Carter Administration, he longed to return to Washington and became an adviser to Ronald Reagan's Presidential campaign, which in turn set him up for nomination to the role of Fed Chairman in 1987.

Both Martin and Woodward offer little new material on Greenspan's early years at the Fed. Much of this ground

has been amply covered in Steve Beckner's 1996 book *Back from the Brink: The Greenspan Years*. However, both Martin and Woodward's books can be recommended as rather more readable renditions of this material. Even for market economists, Beckner's earlier book is often extremely tedious in its copious recitations of FOMC minutes and data releases.

Woodward's book is his trademark insiders' account, based largely on anonymous interviews. Woodward provides an interesting account of the politics of US monetary policy during the Clinton Administration and the development of new economy thinking at the Fed, most notably Greenspan's observation that there was something amiss in the productivity statistics (Woodward, 174). But there are no great revelations in this material, even for well-informed lay readers.

Perhaps the most interesting observation in Woodward's book concerns the way in which the Clinton White House learned not to criticise the Fed. Criticism of the Fed would be widely seen as putting at risk its independence and inflation-fighting credentials. Because of their concern to keep long-term interest rates low, the Administration found they had a market-based incentive not to criticise or otherwise threaten the Fed's independence (148). Market interest rates were also the main driver of Clinton's deficit reduction efforts. In Woodward's account, financial markets were an important discipline on the Clinton Administration.

Both books endorse conventional wisdom in giving Greenspan considerable credit for his handling of the 1987 stock market crash and the 1997-98 emerging markets crisis, less so for his handling of monetary policy in the lead-up to the early 1990s recession. However, the conventional wisdom rings hollow. It suggests no more than that nothing succeeds like success. We will never know how these events might have played out

if someone other than Greenspan were in charge of the Fed.

It is to be expected that a biographer and a political journalist will exaggerate the importance of their subject for the events under consideration, since it suits their narrative purpose. Their readers, however, are entitled to take a more sceptical view. Classical liberals will be suspicious of the view that the authorities control the destiny of an inherently uncontrollable world economy. This hubris reached its peak when *Time* magazine featured Greenspan and other top officials on its February 1999 cover under the headline 'The Committee to Save the World.'

In reality, these officials probably did as much to create these problems as they did to solve them. It is much easier, and certainly more dramatic, to explain what a group of powerful individuals did in response to an international financial crisis, than to explain its underlying causes. It may even serve as a useful fiction for people to believe that the authorities are more likely to prevent than to cause such a crisis. But it can also be a dangerous fiction.

At no point does either author question the legitimacy of the Fed Chairman's authority or influence over the US economy. The institutional framework for US monetary policy holds little interest for either author. Martin does not seem to find it at all questionable that the Fed Chairman should 'make all the difference as to whether the populace wears new shoes or eats old ones' (Martin, 135).

Woodward sounds like a member of a religious cult when he concludes his book with the following: 'But some day . . . the economic boom will end. Someone, an authoritative voice, is going to have to

tell us when the party is over. Someone with credibility will have to explain and answer questions. What happened? Why? What might it mean? Who is responsible? Someone will have to propose a course of action and outline what has to be done' (Woodward, 229). The implication is that only Greenspan is up to the task. It is testimony to Greenspan's success that he inspires such a response from Washington's best-known political commentator. An individual with Greenspan's power and ideological leanings in any other context would probably be denounced as a danger to the public interest.

We can certainly be grateful that the Fed is headed by an individual of Greenspan's great character and ability. We should be even more thankful for his free market leanings, even if the Fed provides only very limited opportunities to apply free market ideas to public policy. But Greenspan's success in this role only highlights the need for monetary institutions more bound by the rule of law. Future Fed Chairmen may not be quite as able or as fortunate as Alan Greenspan.

**Reviewed by Stephen  
Kirchner**

**Greenspan's success  
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***Reason and Imagination:  
Philosophical Writings on the  
works of Karl Popper and  
William Bartley***

Rafe Champion  
Sydney, 2000, 200 pages.

Rafe Champion needs no introduction to readers of *Policy* as a public intellectual, as a powerful writer, and as a proponent of Karl Popper. Champion's range of interests is formidable—from his early work on the hairs on roots of plants, through the rights of apartment owners, to policy issues on intellectual handicap, to Les Darcy and also philosophy. Given Champion's enthusiasm for and deep understanding of Karl Popper, and his talent for the cogent and forceful popular presentation of abstract ideas, the reader of this self-published collection is, in many ways, in for a treat.

The essays (mostly previously published) are on themes to do with the philosophy of Karl Popper and its significance, and also discuss aspects of the work of two writers influenced by Popper: William Bartley and Peter Medawar.

Champion writes for the layperson, and does so clearly and effectively. He is especially adept at getting to the heart of key aspects of Popper's work—of which he has an excellent command—and in conveying its excitement, relevance and potential in a powerful way. He develops some nice metaphors—such as of knowledge as a hot air balloon, tethered to the ground (if the ropes are cut, there is nothing to tie down speculation; if one shortens them, one loses the content that only speculation and imagination can provide). He illustrates his points by way of references to a range of interesting material, and has a nice turn of phrase.

At its best, this represents as good a guide to the excitement and potential of a 'Popperian' approach as you will get (although it covers only limited aspects of Popper's ideas). Champion adds to the value of his discussion of this material in novel and interesting ways; for example by way of discussing issues in literary theory.

The broad message that Champion offers can be put like this (although I am



conscious that I cannot do so with Champion's flair). Popper provides a view of knowledge that resolves an old problem. It was that rationalists typically held the view that if a position was rational, it must be capable of justification.

This, however, easily generates a regress. For if you justify things logically—by deducing them from something else—you are then stuck with the problem of how to justify that. As a result, some rationalists were led into a quest for knowledge that was supposed to be self-justifying (hence, concerns about our experience of red patches, or ideas such as 'I think therefore I am' which were allegedly undeniable).

This led philosophers into lots of fascinating discussion, as anyone who has studied the history of philosophy at university will tell you. But the problem is that even if one can find statements that, in some sense, can't be denied, or experiences that we can be certain that we are having, they would not help us to justify *substantive* knowledge claims, because such certainty can only be obtained at the cost of near-triviality. As a result, the demands of rationalists that knowledge claims should be justified in fact served to strengthen the case of the *enemies* of rationalism—for they would typically be able to show that any claim to have justified substantive claims to knowledge was, in fact, bogus.

Popper (and Bartley, who offered this as an interpretation of Popper's work, and contributed some important developments of his own) responded to this by developing the view that we should ditch the ideal of justification, and replace it instead by openness to criticism. From this perspective, what became important, and the mark of rationality, was whether one's ideas resolved problems, and whether they could be critically appraised—either by testing them, if they aimed to be empirical knowledge, or by way of more general criticism.

Such a view of knowledge is immensely liberating. It offers a resolution of what is, otherwise, an intractable problem. It puts emphasis upon the importance of learning and of progress in our knowledge. It also gives proper weight to imagination in the development of scientific ideas, and thus offers an account

of science that places it much closer to literature.

Popper also stressed the objectivity of our knowledge, in the sense of it existing as something outside our-selves, with which we could interact. Not only can we open our ideas up to criticism if we spell them out in this way, but also we, ourselves, can be transformed by way of our interactions with these objects that we, and others, produce and work on together.

Champion conveys all this, its excitement and its promise, better than I could, and on this score his book is a real success. However, I am not 100% enthusiastic about it. The reason is that the collection consists of some 13 essays too many of which offer an introduction to much the same ideas. Champion does this well, and the essays are typically economical and wide-ranging. But he sometimes writes much too briefly. For example, while he is good at explaining Popper's ideas to the non-specialist, he sometimes offers criticism of other writers that is acute, but which is conveyed so briefly that it will only be intelligible to those who already know a lot about the material that he is discussing.

Similarly, his treatment of literary criticism, while interesting, at times presupposes more knowledge of the figures and ideas that he is discussing than was possessed by this reviewer, and which I could have thought he could reasonably expect of his (lay) audience. Such compression is fair enough when one is writing under space limitations, as Champion was likely to have been in the original versions of these pieces. It is more problematic when the material is collected into a book. Indeed, the transition from occasional pieces to a book seems to me the Achilles heel of this collection.

Collected in this manner, this material is repetitive. The same thing is sometimes explained, in much the same way, using the same references, striking metaphors or examples, in more than one place. Indeed, the very power of Champion's writing here works against him. For if something is said in a distinctive way—cheese, for example, crops up as an example—the reader will

remember it if it is said more than once. At a more picky level, there is no consistent system of referencing, and I suspect that most readers would have trouble tracking down Champion's sources, because what is provided is often inadequate.

There are a couple of lessons in all this. For the reader—and I would, indeed, recommend the purchase and reading of this book—I would suggest reading it an essay at a time, rather than the whole thing at a sitting. For Champion himself, I would suggest that he quits self-publication and, instead, considers writing a more systematic introduction to Popper's work with a regular publisher. Given his knowledge, flair and ability to communicate effectively, that would be something that the reading public could really look forward to.

**Reviewed by Jeremy Shearmur**

***Free Trade versus Protectionism, A Source Book of Essays and Readings***

Johannes Overbeek  
Edward Elgar 1999,  
646 pages, £75.00  
ISBN 1 85898 971 X

Occasionally, one senses a certain degree of triumphalism among liberals that the free trade debate has been won. An understanding of history will tell us that such triumphalism is misplaced; the good fight for the open economy is never quite won!

The book under review provides a splendid sense of history about the debate



between protectionists and free traders. It ranges from the mercantilists of the 18th century, through classical liberal thought and nationalistic protectionism in the 19th, to the autarky arguments of the ordinary and national socialists, the rise of free trade in the second half of the 20th century and the present-day emergence of new-age neo mercantilism.

In each chapter, Professor Johannes Overbeek first outlines the general economic conditions of the age, then sketches the biography and life work of selected authors with deftly crafted, highly readable masterstrokes, before presenting excerpts from these authors. The introductions, if read together, serve as a short history of the western economy and of economic thought; they form a valuable part of the volume. The author leaves us in no doubt that his sympathies lie with free trade and—one suspects—public choice of the Austrian denomination.

The excerpts from the selected authors are on the whole well chosen. One might quibble that some relative unknowns, such as Dutch liberal Nicolaas Gerard Pierson (40 pages), have been included, and that some greats who were influential this century have been omitted. I would have expected excerpts from Eli Heckscher, Bertil Ohlin, Jacob Viner and Bela Balassa, none of whom was included. Indeed, Australians might expect an excerpt from the path-breaking Brigden report, *The Australian Tariff: An Economic Enquiry* (Melbourne University Press, 1929), which was for example quoted in an earlier, though shorter magisterial survey of the literature on international trade by Metzler in his paper 'The Theory of International Trade' (in H.S. Ellis [ed], *A Survey of Contemporary Economics*, 1948).

Overbeek chose to cover the protectionism versus free trade controversy in depth and steered clear of closely related areas such as economic development, international investment, the balance of payments and exchange rates, which are normally covered in surveys of the trade literature (for example in the classical *Readings in the Theory of International*

*Trade* put out by the American Economic Association in 1950).

Readers, and not only undergraduate students, can learn a great deal from this book. It emerges quite clearly that the debate among protectionists and free traders was often a debate among the deaf, between protagonists who argued for political expediency and particular interest groups, and others who stuck to first-best principles and the common good.

Time and again, free traders showed that protection amounted to opportunistic favouritism and discrimination, that it hampered economic growth and fostered what was called 'indolence' in the 19th century and what I would call shirking the costs of innovation and competition.

The arguments of the contemporary 'anti-globalisation mob' have all been anticipated and refuted in the literature. Openness helps to create more jobs than it destroys, and offers opportunities to learn and to exploit higher skills; but it does of course not protect those who refuse to learn and compete. Without openness it is futile to contain political and bureaucratic preference mongering and cronyism at the expense of the consumers, the poor and new entrepreneurs. Intervention may offer political careerists opportunities for seeking votes and party finance, but it damages the life opportunities of the less well connected and less fortunate. It is always unjust.

The 'infant industry argument' for tariffs has long been refuted as false in the literature. Even the defence argument, that a nation needs an industry base of its own to defend itself, which long enjoyed respectability, makes no sense at a time when wars are fought from stock and military is so complicated that not even the super-powers can command all the technology their defence requires.

Had the postwar politicians of India,

South America, Africa and Australia only read the literature, much harm and poverty would have been averted. A whole generation of Australians and New Zealanders would have been better off, securer, and more successful and could have enjoyed the confidence that inspires the 1990s generation of export winners.

Overbeek quotes Goethe (viii) who wrote that 'without a knowledge of history, we must remain content to remain in obscurity'. It is for this reason that I strongly recommend this book, not only to students, but also to all those who want to be armed against the arguments of opportunistic politicians, rent-seeking interest groups and single-issue promoters who have only contempt for liberty and prosperity.

**It emerges quite clearly that the debate among protectionists and free traders was often a debate among the deaf.**

**Reviewed by Wolfgang Kasper**