IN REVIEW

Restoring the Bourgeois Deal

REVIEW BY GEORGE LEEF

How did most of humanity go from bare subsistence living, stalked constantly by famine, disease, and violence, to today's vastly better living conditions? Just a few centuries ago, almost all people lived a Hobbesian existence. Now, even residents of very poor countries are enjoying unprecedented increases in prosperity. For most of human history, there was no economic progress, then suddenly the Great Enrichment bloomed. Why?

According to Deirdre McCloskey and Art Carden's new book *Leave Me Alone and I'll Make You Rich*, the answer is that people accepted what they call "the Bourgeois Deal." In a nutshell, the deal allows innovation that can displace traditional social and economic order in return for the widespread improvement in living standards that such innovation yields. The book explains that progress happens when humans (all of them, not just a few) have the liberty to work to better themselves. The resulting innovations and other "betterments" will provide spillover benefits to others. The authors argue that the catalyst for humanity's rapid advancement over the past few centuries was liberty, and liberty alone.

McCloskey, an interdisciplinary professor at the University of Illinois at Chicago, and Carden, an economist at Samford University, argue that the idea of liberty began in northwestern Europe. The old social order (in Europe and elsewhere) placed nobles, clergy, and military men at the top of the social hierarchy, while merchants, artisans, and farmers were on a low plane. This began to change, beginning in the Dutch Republic around the year 1500, as people started to think that it was good to produce, trade, and earn profits. Thus began not "capitalism" (a term the authors disdain), but "innovism" and, with it, the Great Enrichment. People with a head for business were free to produce and trade, gaining for themselves if they produced what others were willing to pay for, or losing when they did not.

Liberalism and statism / Enrichment thus comes from liberty. What extinguishes liberty is force, and the worst wielders of force are governments. Write McCloskey and Carden:

> Big governments exercise more power over more people—people harmlessly chatting or strumming or knitting or dealing in the economy. We believe, and so should you, that the more involuntary masters the citizens have, the worse they do, materially and spiritually. With too many masters with too much power, they are reduced to children.

That is what worries McCloskey and Carden: the possibility that we are moving in the wrong direction, constricting the sphere of liberty. There are lots of people who have grand ideas for fixing what they think is wrong with society, and they intend to accomplish them through government. Some of these ostensible benefactors are "progressive" statists and others are "conservative" statists; where they agree is that government is the proper instrument for achieving their goals. Those who oppose their schemes are properly called "liberals," and the authors refer to themselves that way. I applaud them for working to rescue a good word from a century of abuse while at the same time clarifying our political discourse.

The authors are unabashed optimists. They know that free people will innovate, cooperate, and peacefully solve problems. But they recognize the power of pessimism to undermine freedom. Their book abounds in challenges to statists and here is one of my favorites:

> You view pessimism as more honorable than optimism. Pessimism says that you really, really care about the world's poor and *les miserables*, and really, really want to do more, or at least coerce other people to do more.

That's exactly right. The most intractable opponents of liberalism in America are wealthy urbanites and academics whose lives are filled with displays of their compassion, which invariably involve government coercion.

Defending liberalism / Much of *Leave Me Alone* is devoted to refuting the common objections that statists have drummed into people's minds about the imagined dangers of a truly liberal society.

One of those criticisms is that if we allow "too much" economic freedom, the result will be moral and spiritual decline. Harvard philosophy professor Michael Sandel, for one, complains that markets "corrupt" things that he believes should be treated on a higher level than that of "grubby" commerce. (See "The Smart Philosopher vs. the People," Fall 2012.) McCloskey and Carden respond with vigor:

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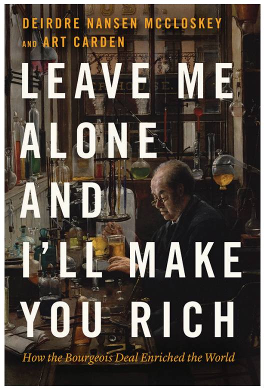
Sandel worries that the market can crowd out the sacred. A corporate financing of, say, elementary classrooms might crowd out self-critical teaching about innovism. Yet Sandel does not inform his students that financing by the state might crowd out self-critical teaching about the bad results of, say, the unthinking patriotism taught to McCloskey as a child or the unthinking environmentalism taught to Carden.



Leave Me Alone and I'll Make Your Rich: How the Bourgeois Deal Enriched the World

By Deirdre Nansen McCloskey and Art Carden

227 pp.; University of Chicago Press, 2020

Another reason why many people reject liberalism is that they believe that economic progress for some must come at the expense of others, specifically the world's poor. Americans are told that our wealth should make us feel guilty because it impoverishes "the downtrodden." The statists play on that guilt to extract taxes for foreign aid and economic development programs. Problem is, those provide little benefit, except for the jobs they create for the fortunate folks who get to run them.

McCloskey and Carden push back against the zero-sum notion that wealth for the few entails poverty for the rest. They write:

> For one thing, as we argue, the poor have been the chief beneficiaries of the Great Enrichment, considering that getting enough food to eat is a little more important for human flourishing than another yacht to a billionaire. For another, the Enrichment has not at all been limited to Europe and its overseas extensions.... Even many very poor countries, like Bangladesh, are now bettering at a rapid pace.

Another argument against liberalism is that it will lead to "unacceptable" inequality. The rich will get way too rich, which government must prevent. The authors respond that material equality is not an ethically relevant goal, writing, "What matters is absolute material standards of living, not anger that someone else might be doing better." Statism thrives on envy but, say the authors, we must not let it get in the way of progress.

Innovism and exploitation / McCloskey and Carden devote several chapters to refuting mistaken ideas about the reasons for the Great Enrichment.

Many economists have argued that it is the result of capital accumulation, but the authors disagree. They point out that capital, while *necessary* for progress, is not *sufficient*. Capital has existed in most societies that are above bare subsistence, and yet no enrichment took off. There won't be any noticeable progress unless capital can be used by people to try new ideas, and that requires the liberal Bourgeois Deal.

How about education? No, that isn't the reason either. In England and elsewhere, the enrichment was not driven by "educated" people. Most innovators had little formal schooling; instead, they had practical knowledge acquired from their work as mechanics, artisans, and engineers. To give just one revealing example, the problem of calculating longitude was not solved by an eminent scientist, but by John Harrison, an English carpenter from rural Lincolnshire. Of course, McCloskey and Carden are not against schooling, but they see no reason why government should subsidize it.

Many statists are certain that the reason why the West got rich is because of its imperialistic exploitation of hapless native peoples. That belief paves the way for government programs to redistribute wealth internationally. While the authors have nothing good to say about the imperialism of Spain, France, England, Portugal, and other colonial powers, they show that imperialism had nothing to do with those countries' economic advancement. Quite the opposite: imperialism absorbed wealth that could have been used more productively.

Another currently popular explanation for the wealth of some nations (especially the United States) is that it was the product of slavery. Among progressives in recent years, it has become fashionable to maintain that slavery was the cause of society's wealth and because the unfairness of slavery still has lingering effects, government reparation programs must be undertaken. The problem with this thinking, the authors respond, is that enslaving others is no way to earn great profits, much less catalyze economic growth. "Slavery," they write, "is a common if horrible human institution. If slavery led to Great Enrichment, it would have happened in the slave societies of Greece or Rome."

Alternative deals / For readers who still might not be sold on the attractiveness of the Bourgeois Deal, the authors contrast it with four other "deals" that humans have had thrust upon them.

There was the Blue Blood Deal, where people had to obey, pay taxes to, and fight wars for aristocrats, who might end up protecting their subjects from the coercion of other aristocrats. There was the Bolshevik Deal, the essence of which was (and is), in McCloskey and Carden's words: "Do your assigned task, turn over the fruits of your labor for distribution by the Communist Party, and above all, do not criticize the party. Obey… and at least we will not have liquidated you."

Don't care for those? There is also the Bismarckian Deal, which bribed the poor to behave themselves with promises of government-provided economic security, which is the essence of the modern welfare state. What it requires of the people "is to forsake the animation of adult life and become children of the government." Or there is the Bureaucratic Deal, which reduces economic life to an endless game of seeking permission from government functionaries. Obey all the bureaucratic rules and regulations, pay your taxes, and you can stay out of jail.

Though today's America offers vestiges of the Bourgeois Deal, it is diluted with a blend of the Bismarckian and Bureaucratic. The latter two appeal to a lot of people who can't imagine how much better off they would be if we purely embraced the Bourgeois Deal. The point of this book is to persuade them.

Historically, the authors know, liberalism is not the norm. The United States enjoyed liberalism for about a century and a half, but in the last hundred years statism has (re)asserted itself. The COVID pandemic is just one example of the sorts of crises in which the governments of ostensibly liberal countries like the United States, United Kingdom, Canada, and New Zealand assert extraordinary powers over the lives of ordinary people, who in their concern about the crisis are willing to accept the interventions—and remain compliant after the emergency wanes. Too many people have lost (or never had) the taste for liberty.

If liberal society is to be preserved, there is no time to lose in attempting to shore up its philosophical foundations. *Leave Me Alone* is an estimable effort at doing that. The book is an easy, engaging read that may lead some thoughtful statists to question their premises. If you know someone like that, give him a copy. R

Extending the Culture Wars

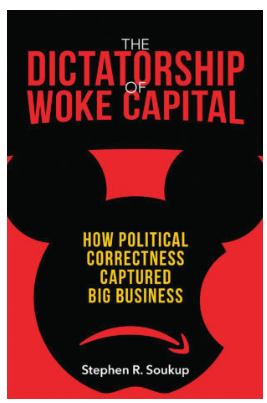
REVIEW BY TODD ZYWICKI

The first time I heard the term "woke," just a few years ago, was in an ironic context. The user was poking fun at some half-baked theory derived from the writings of then-obscure French philosophers to "cancel" a college speaker or impose race and sex quotas on the Academy Awards. I had no idea the term would soon migrate from the fringes of academic discourse to the center of American politics and society, used to justify everything from racial preferences in hiring, to attacks on the rule of law, to voting law changes, to attitudes toward women's sports.

It's also emerged on Wall Street and in corporate America's executive suites. In his new book *The Dictatorship of Woke Capital*, Political Forum vice-president Stephen Soukup argues that "wokism" is poised to transform big business and even the ruthless bottom-line-oriented world of capital markets into a machine to promote progressive policy goals.

How this transformation happened and what it might mean for the future of American society and the economy are the central themes of Soukup's short and useful, albeit incomplete, book. Unfortunately, because the rise of woke capital is rooted in social trends that have evolved over decades, trying to figure out how to reverse those trends is far more difficult than simply pointing them out. Indeed, if anything, the author underestimates the dangers associated with the rise of woke capital in society and its propensity to deepen social division and conflict.

Rise of woke capital / The first half of *The Dictatorship of Woke Capital* explains the intellectual and institutional background behind the woke capital movement. Soukup sees the rise of woke capital as the confluence of two different strands of history that have intertwined: the development of the woke ideology on one hand and the rise of an increasingly powerful and insulated American elite financial class on the other. He argues these elites are increasingly wielding other people's money to circumvent the democratic process and impose their parochial vision of the good society on the rest of us.



The Dictatorship of Woke Capital: How Political Correctness Captured Big Business

By Stephen R. Soukup

208 pp.; Encounter Books, 2021

Soukup provides an accessible history of the woke ideology, starting with the roots of the movement in Marxism and its evolution through the Frankfurt School of political theory into the modern ideas of critical studies, in which the class ideas of classical Marxism give way to modern forms of identity beyond class. He identifies German-American political theorist Herbert Marcuse (1898–1979) as a particularly influential figure in bringing about this intellectual transition to the modern age. When harnessed to the revisionist Marxist thought of Italian philosopher and politician Antonio Gramsci (1891–1937), critical studies focused on the value of capturing the elite institutions of society that play a pivotal role in shaping the intellectual superstructure of society. Gramsci's strategy of producing social change by coopting the ruling institutions of society contrasted with traditional Marxism, which preached the importance of popular revolution to overturn the dominant ruling elite.

Aiding this was the growing skepticism of democratic government displayed by Woodrow Wilson and other admirers of the German administrative state. Wilson and other progressives sought to displace the unlearned amateurism of democracy with rule by trained and enlightened elites in government, business, and academia. From the beginning, Soukup argues, Wilson and his contemporaries foresaw a cooperative relationship between governmental and big business elites to reinforce each other's activities. He points to the unusual structure of the Federal Reserve, which intertwines private bankers and government officials in a form of public–private elite decision making, as an early prototype of the progressive model of elite governance.

Beginning in the late 1960s and into the 1970s, these two streams of thought—woke ideology and elite governance—converged. Although manifested in multiple ways, most relevant for the current discussion is the idea of corporate "stakeholders," a diffuse set of constituencies with whom the corporation has some relationship and supposedly owes some ill-defined duties. At least initially, the development of this stakeholder theory—that the corporation might take into account the interests of a local community or employees as part of ensuring the long-term success and viability of the company—was unobjectionable. As Soukup notes, even Milton Friedman acknowledged some room for corporate judgment to look beyond short-term profitability for long-term returns. But Friedman also noted that every dollar that a corporation spends to advance a purpose other than the long-tem profitability of the company is a dollar taken from the pockets of shareholders and given to someone else. And instead of spending that money on employees, customers, or some other beneficiary, the corporation could return that money to the shareholders and let them spend it on *their* preferred beneficiaries.

But Soukup suggests that while Friedman nevertheless recognized the propriety of spending some corporate money to promote "stakeholder" interests, by implication the spending should relate to some long-term enlightened interest of the company and its shareholders. It is hard to see how this would extend to becoming involved in inflammatory social issues such as transgender bathroom access or voting law changes in some distant state. (See "The Problem with Politicizing Corporations," Summer 2021.)

As control over a greater and greater amount of financial wealth has been concentrated in the hands of a small group of financial firms, this has provided them with extraordinary leverage over corporations, society, and the political process. At the same time, there is growing support for the idea that these financial titans, along with corporate executives, *should* use ordinary people's money to pursue political and social agendas. Financial elites rotate seamlessly between government and Wall Street—most notable, during Donald Trump's administration, both the chairman of the Federal Reserve and the treasury secretary were former investment bankers. Nor was Trump's administration unique in having ties to the world of finance. In fact, according to campaign finance records, Wall Street employees donated about four times more money to Joe Biden's 2020 presidential campaign than to Trump's. Soukup argues that the combination of these trends of growing elite dominance of government and increasing woke pressures has, in essence, given rise to a sort of unaccountable "super-government" run by a small handful of elites where vast amounts of money are directed toward the particular agendas and priorities favored by those individuals, with minimal input from most everyone else in society.

Soukup argues that the combination of growing elite dominance and woke pressures has given rise to unaccountable "super-government."

What makes this possible? According to Soukup, many of the relevant financial markets that leverage woke capital are controlled by a very small number of firms. This includes asset managers (especially of passive investment firms), proxy adviser services, and large pension funds (especially government pension funds). In turn, the development of well-organized activist groups that push left-wing shareholder proposals on various social issues has provided corporate managers and investment firms with an excuse to pursue these social goals largely removed from the concerns of the particular company. In short, the small number of players at these key junctures of the financial system allows them to implicitly collude with one another and use their leverage to drive social change.

The influence of these private actors is reinforced by the political biases at the Securities and Exchange Commission. Although this book was written before Biden assumed the presidency, it foreshadows the aggressive positions that have been taken by the Federal Reserve and SEC to push for more aggressive environmental, social, and corporate governance (ESG) reporting, especially of so-called climate risks, and to expand the scope of such reporting to include novel concepts such as racial equity and the like. Less known is the ability of SEC staffers to tilt the shareholder proposal process in favor of left-leaning shareholders and to disadvantage conservatives. For example, Soukup notes that under the SEC's rules, shareholders have the right to submit proposals and have them voted on by the rest of the shareholders. But the company is permitted to exclude certain shareholder proposals if they first request permission from the SEC. As an example, Soukup notes that in 2019 Apple petitioned the SEC to block consideration of two virtually identical proposals related to racial diversity on one hand and intellectual diversity on the other. The SEC allowed the racial diversity proposal to appear on the shareholder ballot and approved the blocking of the intellectual diversity proposal.

Soukup argues that by leveraging corporate treasuries and reputations, corporate CEOs and other wealthy and powerful elites spend shareholders'—that is, other people's—money to advance political goals they are unable to persuade the public to adopt through democratic processes. The woke capital industry operates in economically concentrated sectors of the economy where they are insulated from serious competition from rivals. This combination of power and insulation enables them to impose their elite policy preferences on society without ever having to win public approval, even though virtually all of those costs will be borne by others—often the least well-off in society.

Perhaps most relevant with respect to most of these hot-button issues, corporations and their leaders have no particular expertise in understanding the most pressing social problems or the best solutions. Instead, this is a dynamic of wealthy amateurs spending other people's money to advance their pet projects, instead of arguably more important or well-designed social policies.

Overall, Soukup identifies an asymmetry in the battle over woke capital between right and left. Unfortunately, this more traditional role for corporations—that of simply producing high-value products and services for their consumers, employees, and shareholders—no longer appears to be a sufficiently grandiose vision for corporate leaders.

Consequences / Part II of the book discusses the consequences of woke capital. Here Soukup turns more polemical as he documents wokeism in the modern marketplace and some of the actions taken by corporations in pursuing this agenda. Notably, the book was written before some of the headline-grabbing examples of 2021, such as Coca-Cola's instructions to employees on how to act "less white" or the swarm of corporations that denounced Georgia's voting law changes even while those same CEOs admitted that they had not read the law and that it had nothing to do with the operation of their companies.

Soukup describes this shift to the left as the predictable consequence of imbalances in the structure of the marketplace around woke capital. Financial firms push woke policies and corporate CEOs put up minimal resistance when nudged by left-wing activist groups or socially conscious investment firms such as BlackRock to endorse woke positions.

The left-wing orientation is reflected in the selection of issues that these groups tend to highlight and public corporations focus on today, such as climate change, questions about personal sexuality, and, more recently, claims of voter suppression. In many of these instances, such as forcing the adoption of carbon reduction policies that will increase the cost of energy, the policies in question are darlings of powerful elites that impose costs on lower-income Americans.

Although Soukup does not speculate on why conservatives historically have eschewed using corporate pressure to advance their own political goals, one suspects they did not do so because of their belief that this isn't the proper role of a corporation and shareholders. It remains to be seen whether that restraint will continue. In fact, some conservatives have begun advancing shareholder proposals of their own. Needless to say, extending the culture wars deeper into private employment and economic relations is not likely to reduce political divisiveness in the country.

The future / What is to be done about the dominance of woke capital over the American economic system? Soukup says little about this in the book beyond a call to depoliticize corporations. I have some further ideas.

First, his argument rests on the assumption that a handful of firms dominate discrete and important submarkets in the economy, but he doesn't explain how these industries became so concentrated and why that continues. For example, he highlights the role played by obscure intermediaries such as the small group of large proxy fund advisers or the small group of firms that dominate the misleadingly named "passive" asset managers (especially BlackRock). Soukup argues that it is the cartel-like structure of these markets that enables these firms to use their clout to pursue their managers' personal political preferences. He offers no history or background for how these markets came to be so concentrated or why they have not been attacked through antitrust lawsuits or some other steps that would open them to greater competition. It would be useful to know if these concentrated industries arose and are preserved by regulatory privileges that erect barriers to competition.

Extending the culture wars deeper into private employment and economic relations is not likely to reduce political divisiveness in this country.

Because these large firms dominate the markets in which they operate, it is difficult for ordinary investors to avoid them even if they wanted to. Few Americans directly invest in the stock market and pick individual stocks. The overwhelming majority of American investors do so indirectly through their retirement savings, either through defined-benefit pension plans or 401(k) plans. With respect to the former, the employees have no say as to how their employer invests "their" money or who is hired to manage the funds for them. If your employer hires BlackRock to manage the firm's pension plan, then you are stuck implicitly endorsing BlackRock's policies and the companies they influence. The 401(k) plans are not much better. Most plans offer only a modest selection of mutual funds and fund providers in which to invest—typically the dominant providers that Soukup identifies. Few 401(k) plans offer the option of investing directly in individual stocks. Thus, even if an individual wanted to avoid supporting woke investment causes, the average investor has little choice but to play ball with BlackRock, Vanguard, or the handful of other mutual fund providers offered by their employer's plan.

The challenge of large firms imposing politically biased policies runs the gamut across many different thorny issues today. For example, it has been argued that major social media platforms discriminate against conservative organizations and individuals on their platforms and do not apply their stated "Terms and Conditions" in an even-handed manner to all content. If this is indeed true, it is unclear that there is any good regulatory solution to address the problem or any proposed corrections that would make matters better overall. Moreover, as Soukup notes in the book, most of the relevant federal regulatory apparatus is staffed by progressive ideologues, including the SEC. Large and powerful corporations are likely to be effective rent-seekers as well, and increasing government power will also increase the potential for powerful interests to manipulate the regulatory state to their advantage. Even well-intentioned laws and regulations designed to address these problems are unlikely to have their intended effects and may simply exacerbate existing problems or create new ones.

Second, a fundamental ambiguity in Soukup's argument is whether corporations and their leaders that embrace wokeism are best understood as unwilling victims of the woke capital industry or whether they are using the corporation's till and prestige to do what they want to do. Soukup discusses case studies of Apple, Disney, and Amazon and their eager embrace of woke policies. In the few months since the book was published, many more corporations have jumped on the woke bandwagon, from major banks to Major League Baseball.

Traditionally, corporations avoided taking sides in controversial political disputes and did so only reluctantly if at all. For example, the symbiotic relationship between corporations on one hand and activist–entrepreneurs such as Al Sharpton and Jesse Jackson or environmental activist groups was understood as a sort of shakedown racket or tollbooth where these individuals and groups could bring public and political pressure to bear on a corporation. Corporations simply had to pay them off with donations to their organizations and the corporations would get their indulgence. This was seen as especially the case in heavily regulated markets such as banking and real estate development, where these organizations could block or delay approval of a merger or commercial development.

Today's corporate CEOs defend their political posturing and diversion of corporate resources to political ends by citing the Business Judgment Rule, claiming their advocacy is necessary to appease important "stakeholders," whether employees, media, regulatory authorities, or "younger consumers." Yet, as Soukup notes and as subsequent studies confirm, serious empirical studies fail to show any tangible benefit to shareholders from corporations' political activities, and many studies identify a loss.

While a CEO's political activity is often rationalized as being valuable to the company, that activity is better understood as agency costs by the CEO.

For example, consider a CEO who decides that millennial consumers would think the company was "cool" if he diverted corporate funds to buy himself an extravagant wardrobe, gigantic corporate jet, palatial personal home with a large staff, and lush CEO office space. Or he could decide that going to a strip club and "making it rain" with corporate funds would give the company an "edgy" appeal that would attract millennials or some other group. Such expenditures on personal consumption traditionally have been seen as the exemplar of diversion of corporate funds for private self-aggrandizement that violate the Business Judgment Rule. But is use of corporate resources to promote the CEO's personal political hobbyhorses—whether through direct financial expenditures or indirectly by lending the corporation's brand and prestige to controversial social movements—different from building a palatial home?

If there is no evident benefit to the corporation from the virtue signaling behavior of the CEO or company, what might explain the willingness of the CEO to insert the company into divisive culture war issues? An alternative hypothesis is that this political activity does not actually benefit the company but does benefit the CEO personally—a form of agency cost in which the CEO dissipates or misuses the corporation's assets for his personal benefit. If that is the actual explanation for the CEO's behavior, then that would not be protected by the Business Judgment Rule.

Analogous research from related areas of economics and finance lends credence to the agency costs explanation for corporate wokeism. Research on corporate political activity by Harvard Law School dean John Coates found that political activity by CEOs correlates negatively with measures of shareholder power (such as concentration and shareholder rights), negatively with shareholder value, and positively with signs of managerial agency costs (such as corporate jet use by CEOs). Thus, while a CEO's political activity is often rationalized as being valuable to the company, it seems that in fact that activity is better understood as agency costs by the CEO and, indeed, is correlated with higher levels of agency costs.

As University of Virginia law professors Julia and Paul Mahoney have shown, investors whose funds are managed by huge management companies such as BlackRock, Vanguard, and State Street are like ordinary investors in public companies, having little incentive or ability to monitor and control those who manage and vote their shares. (See p. 10.) For example, an employee's choice of providers for his 401(k) plan might be limited to a small group of providers, leaving him little ability to influence the behavior of fund managers. Leaders of government employee pension plans similarly have little incentive to monitor and even less ability to influence or constrain the politically motivated decision making of those who invest their funds, such as the giant CalPERS pension fund, and often have conflicting interests between maximizing the pension fund's returns versus using their leverage to accomplish political goals.

The distinct tilt of corporate activism toward elite issues and fads further indicates that woke corporate activism reflects agency costs by CEOs and fund managers. Consider Soukup's paradigm example of investor and corporate activism around alternative energy and climate change, spearheaded by BlackRock's Larry Fink. According to World Health Organization estimates, about 1.4 million people globally—about half of whom are children—die every year from indoor smoke inhalation caused by using resources such as wood, crop residue, coal, and animal dung for heat and cooking. Greater access to less expensive and more reliable energy production would save many of those lives. Moreover, demand for energy is well-understood to be inelastic in nature, meaning that the costs of higher energy prices fall proportionally more heavily on lower-income households. And what of the well-known reality that many of the precious metals that are used in the production of renewable energy (such as windmills or batteries) are found in illiberal and corrupt political regimes with horrible human rights records? Or, as Soukup repeatedly stresses, why do woke investors treat companies such as Exxon—which provide inexpensive energy that powers improvements in lives all over the world—like pariahs while they rush to invest in China, which is well-known to have interned, tortured, and abused religious and ethnic minorities and whose environmental policies are appalling? To be sure, public posturing ensures Fink a better seat at Davos every year, but is it really making the world a better place?

Perhaps even more relevant: is there any reason why these individuals think they know better than you or I what are society's pressing social problems or how to address them? Fink is not a climatologist and airline CEOs are not experts on election law. As Soukup repeatedly points out, these are fabulously wealthy individuals, yet in many instances they give just a trivial percentage of their personal wealth to charitable activities. So why does a corporate CEO or asset manager feel entitled to direct corporate money—*your* money—to fund vanity projects rather than giving that money back to you? Perhaps you agree that the most valuable use of your money is to try to reduce carbon emissions by miniscule levels even if that means poor Americans pay more for energy. But perhaps you are more concerned about fighting hunger, disease, or domestic abuse. Or maybe you just prefer to save more money for your child's college education so she doesn't have to take on as much student loan debt.

One avenue for restraining CEOs from misusing corporate resources to promote themselves and their pet political agendas might be derivative suits by shareholders for misuse of corporate resources. The National Center for Public Policy Research (NCPPR), for example, has threatened a shareholder activism lawsuit against Coca-Cola in response to its announcement that it will require all law firms that work with the company to promise that 30% of their billed hours be accumulated by minorities, LGBTQ persons, women, and people with disabilities, with an additional quota of half of that time going to black lawyers specifically. According to the NCPPR, the stated policy exposes the company to a substantial risk of liability for *violating* the Civil Rights Act, Americans with Disabilities Act, and various state laws. It is likely that even if that situation does not become a lawsuit, future lawsuits on similar grounds are inevitable.

The diversion of corporate resources to promote CEOs' personal agendas is seen as a virtue—so long as the CEOs support the "right" political ideas.

These pressures for corporations to promote woke causes seem destined to accelerate in coming years, as the Biden administration has already announced that it will be imposing new ESG disclosure requirements on public companies. Notably, these disclosures advance left-wing causes such as environmentalism and race, sex, and sexuality "diversity" initiatives, not issues such as the rule of law, economic development, or affordable energy policy. NASDAQ has announced requirements for diversity quotas for companies listed on its exchange. The Biden administration also has announced that it will withdraw the "Fair Access" rule that had been finalized by the Office of the Comptroller of the Currency, which would prohibit banks from "de-banking" individuals who advocate certain political views or industries that operate in non-woke industries such as firearms, payday loans, or others. One anticipates that these initiatives are only the tip of the iceberg and there are more to come.

The modern age of corporate governance was launched by the 1932 publication of Adolf Berle and Gardiner Means's *The Modern Corporation and Private Property*, which railed against corporate officers for acting for their own benefit instead of shareholders. This was seen as a progressive concern. Today's progressives ironically have turned Berle and Means on their heads: the diversion of corporate resources to promote CEOs' personal agendas is seen as a virtue—so long as the CEOs support the "right" political ideas.

Conclusion / In his concluding chapter, Soukup calls for depoliticizing business and markets and returning to less-politicized corporate governance. Realistically, it is hard to see how this will happen nor does he provide a clear path forward. The new alliance of business, political, and intellectual elites around a common set of social values appears to have entrenched the current regime, seemingly leaving reform in the realm of wishful thinking.

Soukup's concerns about the threats to the American economy and democratic governance are far from exaggerated. In my opinion, these issues are becoming an existential threat to the American system of democratic capitalism. Democracy and capitalism can be mutually reinforcing in terms of supporting a free society, but their combination can also be destructive to individual freedom. The flourishing of democratic capitalism depends on keeping the two separate systems distinct: on one hand, individuals must feel free to participate in the process of democratic governance without worrying that doing so will ruin their business or career; on the other, individual shareholders and employees should be able to go about their economic lives without being forced to bow to political pressures.

Friedman once observed that part of the genius of capitalism is that you do not care about the race, sex, or religion of the farmer who grows your grain or the autoworker who screws the bolt into your car chassis, just whether it is done at high quality for a fair cost. Today, however, every aspect of economic activity is becoming politicized and political activists wield growing economic power to further political ends. Employees increasingly are forced to undergo compulsory racial sensitivity training or endorse views of sexuality or speech that may offend their religious principles under threat of losing their jobs. In an incident that previewed what has come since, in 2014 Brendan Eich was driven from his job as CEO of Mozilla because he was discovered to have financially supported California's 2008 ballot initiative to restore the state's traditional definition of marriage as being between one man and one woman. Forcing him out because he donated money to support a cause endorsed by a majority of California residents is not a stable equilibrium. If Eich acting as a private citizen could not donate money consistent with his religious and political principles, it follows that he could not speak in favor of the initiative or vote for it. Indeed, he apparently was expected to publicly oppose the initiative and donate money to stop it. As CEOs increasingly voluntarily thrust themselves and their firms into divisive public disputes, the line between the two halves of democratic capitalism will become increasingly dim.

There is also no limiting principle that suggests that this compulsion should be limited to corporate CEOs. In light of the pressures that have increasingly been brought on CEOs to support or oppose particular political causes, the requirement that ordinary employees be required to publicly endorse and support political causes is far from a far-fetched scenario. To be sure, these are private companies and private employment policies. But anti-communist blacklists were also the result of private employment policies, just as a person's decision to boycott stores owned by Jews, blacks, or Muslims is protected under law. But that it's your right to do so doesn't make it good for society. Further entangling people's right to make a living with compliance with certain political dictates is unlikely to be beneficial to the maintenance of a free society over time.

Most Americans are largely unaware of these woke capital developments. And, as noted, even if they are, there is little they can do about it: they invest through their company retirement plans and have little or no ability to avoid these dominant market players. On the other hand, conservatives are beginning to make shareholder ballot proposals of their own.

Does anybody really think that further extending the ideological wars into the workplace and private markets is going to make our economy—or democracy—stronger? Is this the country we really want to "awaken" to? *R*

The Future Field of Sowell Scholarship

REVIEW BY ART CARDEN

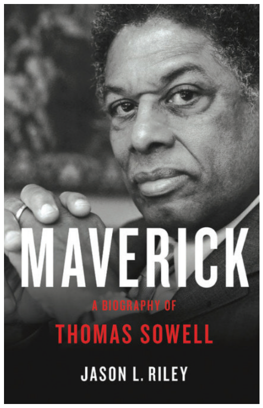
Someday, I'll be able to read just a few pages of a Thomas Sowell book and then put it down and get back to work. That usually doesn't happen now. Nor did it happen with the new book about Sowell, *Maverick: A Biography of Thomas Sowell*, by Manhattan Institute senior fellow Jason L. Riley. Were it not for the ordinary business of life, I probably would have read it in a single sitting like I did Sowell's 2000 memoir, *A Personal Odyssey*.

People don't yet study Sowell the way they study John Rawls, John Stuart Mill, or Milton Friedman—yet. That day is coming, and *Maverick* will occupy a prominent place in scholars' efforts to grapple with one of the most profound, careful, and controversial thinkers of the last century and a half.

Lest the reader doubt Sowell's stature, Riley explains how Friedrich Hayek (Nobel economics prizewinner in 1974) and James M. Buchanan (1986) reacted to what is widely agreed to be Sowell's best purely scholarly contribution, *Knowledge and Decisions*, first published in 1980. Hayek found it revelatory and original even though it was largely an expansion of Hayek's core insights in his classic 1945 *American Economic Review* article "The Use of Knowledge in Society." Buchanan wrote of the book that "it invites comparisons with Adam Smith's *Wealth of Nations*," and he wrote to Sowell specifically, "You have written a great book, and I do not recall ever having said that to anyone." It's high praise from a scholar who exhorted people to write for the ages.

Race and discrimination / Like too many great minds, Sowell is underappreciated in his own time. He has incurred the wrath and vituperation of those on the academic and activist left who have denounced him as a sellout, a race traitor, an "Uncle Tom," and worse. Though they have insulted him, they have not refuted him. To the extent that they claim they have, they have only refuted strawman claims that he never made.

Throughout his work on race and discrimination, Sowell never claims that discrimination is a thing of the past, that it wouldn't be good if people were less prejudiced, or that free markets completely eliminate discrimination. He is not interested in whether or not *some* discrimination exists or whether or not discrimination has *some* explanatory power for various social and economic problems. He is interested in whether or not discrimination is the main reason for disparities between ethnic groups and, therefore, whether or not eliminating discrimination will do much to close those gaps. In one passage in Riley's book, Sowell tells him that he finds the critics' insults reassuring. If the intellectual heavyweights of the academic and activist left can encounter Sowell's ideas and arguments and respond with little more than bluster and bile, it suggests that Sowell might be on to something.



Maverick: A Biography of Thomas Sowell

By Jason L. Riley

304 pp.; Basic Books, 2021

Skin in the game / Sowell, as Riley explains, has very little use for intellectuals qua intellectuals—nor does he think intellectuals and experts should occupy particularly privileged places in society. Arguments matter and they must be logically consistent and backed by carefully and correctly interpreted evidence.

In books like *A Conflict of Visions* (1987), *The Vision of the Anointed* (1995), *Intellectuals and Society* (2010), and *Intellectuals and Race* (2013), Sowell patiently if sternly explains how frequently intellectuals make serious mistakes. The mistakes bother him, obviously, but not as much as the incentives intellectuals have to make them. Sowell is skeptical of intellectuals as self-styled saviors of society because they pay no meaningful price for being wrong.

He trusts the decentralized, systemic knowledge processing and reasoning of the free market over the centralized, articulated knowledge processing and reasoning of intellectuals precisely because the decision makers in the free market have "skin in the game," meaning they benefit or shoulder costs based on whether they are right or wrong. Chin-stroking intellectuals pontificating on how society should be organized from cool coffee shops (like I'm doing as I write this), seminar rooms, and the halls of Congress don't have nearly as much to gain from being right or as much to lose from being wrong.

Scholarly credentials do not impress Sowell in part because he has sterling credentials of his own. As he once said to Hoover Institution research fellow Peter Robinson on an episode of Hoover's interview show *Uncommon Knowledge*, the real benefit of a Harvard education (which Sowell has) is that you don't have to be intimidated or impressed by anyone with a Harvard education. Moreover, his doctoral training at the University of Chicago meant a steady diet of Friedman and George Stigler. Friedman held his students to notoriously high intellectual standards: he once congratulated Sowell on earning a "B" in his course in which no one had earned an "A." Stigler combined high standards with a famously sharp—some would say cruel—wit. For Sowell, after growing up black in the middle of the 20th century, serving a stint in the Marine corps, and then studying under Friedman and Stigler, there wasn't much that would faze him.

What matters / Nor, for that matter, was he easily convinced by anyone's doctrines. That, of course, was fine: Friedman said that anyone who is easy to convince isn't worth convincing. In Sowell's long and distinguished career filled with breathtaking achievements, there is perhaps nothing more remarkable than the fact that he remained a Marxist for a time even after taking Friedman's course. It's hardly consistent with critics' claims that he was bamboozled or bribed into embracing free markets.

His turn away from the Marxian darkness and toward the free-market light happened in the summer of 1960, when he was working at the U.S. Department of Labor. He was struck by the fact that no one there seemed to care whether minimum wage law actually helped workers. What mattered was that the bureaucrats were being paid to administer and enforce it. They were less like the dedicated public servants of *The West Wing* and the market failure chapters of economics textbooks and a lot more like the Vogon bureaucrats in the *Hitchhiker's Guide to the Galaxy* books.

Importantly, Sowell has always been a student of society rather than a self-appointed savior of society. He has opinions about the way things should be, of course, but those opinions are backed by reason and evidence rather than ideology.

His first question about any program or policy is not "Would this be just or fair?" or "Wouldn't it be nice if things were this way?" It's "What are the likely effects?" In the case of affirmative action initiatives in college admissions, for example, he argues (in Riley's words) "that they not only haven't helped the original intended beneficiaries—disadvantaged blacks—but have, in practice, led to slower black progress than we would have seen in the absence of such policies." Alas, Sowell has been proven correct insofar as affirmative action has given racists a pretext for discounting black achievement as the product not of merit but of special privileges.

On campus / Riley's account of Sowell's teaching career is especially interesting. He was decidedly out of step with the times, and he resigned from several positions after butting heads with colleagues and administrators about his difficult grading and his high expectations. While he was an assistant professor at Cornell University, for example, a discussion in which an administrator overruled his decision to remove a student from a summer program he was running ended with Sowell's resignation from the summer program and from the university.

He joined the faculty at Howard University, where he had been a student before transferring to Harvard, hoping to marry his high ideals about racial uplift to his very high intellectual standards. He was disappointed—and perhaps especially disappointed with well-meaning whites—when he was told not to expect too much from his students. He encountered, in other words, what he would elsewhere call "the soft bigotry of low expectations."

Eventually, he made his way to the economics department at the University of California, Los Angeles and, ultimately, into a fellowship at the Hoover Institution that allowed him to teach for a full generation not in the classroom, but through his research and writing.

Readers looking for a lot of biographical details or information about Sowell's childhood will be disappointed with Riley because this isn't that sort of book. Instead, Riley gives us a fascinating, accessible, and easy-to-read introduction to one of the truly great minds of this era. Sowell, however, isn't interested in notoriety. He tells Riley: "I'm not sure I want to be particularly remembered. I would like the ideas that I've put out there to be remembered." As *Maverick* circulates and scholarship on Sowell grows, I have no doubt that they will be. *R*

A Shackled Leviathan That Keeps Roaming and Growing

REVIEW BY PIERRE LEMIEUX

The Narrow Corridor, by economists Daron Acemoglu of MIT and James Robinson of the University of Chicago, was released in 2019 and since then it has been used to support calls for increasing "state capacity." The book was not reviewed in these pages when it first appeared, and it should be discussed here.

The authors write—twice!—that "this book is about liberty." They argue that between "despotic Leviathan" and anarchy there is a narrow corridor of liberty in which individuals flourish and prosper. Their analysis is both positive, describing societies' evolution into, and out of, the narrow corridor, and normative, arguing for the benefits of liberty. At first sight, this looks like essential reading for the intelligentsia, which does not hear the word "liberty" often. However, as we shall see, there are a number of problems with the book's arguments.

The model / As economists do, Acemoglu and Robinson develop their thesis with a simplified model of the world, represented graphically in the book. The basic idea is that social affairs (including economic and political affairs) are governed in varying degrees by the power of the state and the power of society. Each of these two variables is shown on an axis of a Cartesian plane. Acemoglu and Robinson define "society" as anything that is not the state nor government elites. Society is made of ordinary individuals. In developed countries, it corresponds more or less to what is called "civil society."

The more power the state enjoys, ceteris paribus, the more it is a "despotic Leviathan." The more power is exercised by society, ceteris paribus, the more likely it is that we instead get one of two situations: either the Hobbesian "war of all against all" or else, to prevent constant violence and coordinate individual actions, stifling norms of the kind we observe in primitive societies.

The Chinese government has exemplified the despotic Leviathan for more than two millennia; needless to say, it has not been and is still not alone in this. Closer to the second axis (society's power) we meet what Acemoglu and Robinson call the absent Leviathan. This can be found in many primitive stateless societies, about which the authors present much ethnological information. Some modern societies—Lebanon, for example—also have an absent Leviathan. According to Acemoglu and Robinson, somewhere between these two types of social organization—between the despotic Leviathan and the absent Leviathan—runs the narrow corridor where liberty dwells.

One might think that the expression "despotic Leviathan" is pleonastic, but that is not the case in Acemoglu and Robinson's model and terminology. For them, "the Leviathan" is not a pejorative term: it describes a central state that, à la Thomas Hobbes, is powerful enough to prevent continuous violence or to break "the cage of norms." In *The Narrow Corridor* (as in common wisdom), anarchy can only lead to either Hobbesian war or stifling primitive society.

Continuous violence, stifling norms, and despotism are all inimical to economic growth and prosperity. Growth needs innovation and "innovation needs creativity and creativity needs liberty." The authors developed these ideas in their previous book, *Why Nations Fail* (Profile Books, 2012).

The Narrow Corridor argues that liberty requires both "state capacity" (power of the state) and popular mobilization (power of society) to keep Leviathan shackled. The shackled Leviathan opens a narrow corridor between despotism and the cage of norms or continuous violence. This corridor is where liberty prevails: in America, most of Western Europe, and other countries that follow their political and economic systems. The authors explain:

> It isn't just the shackles that are important. So is the ability of the Leviathan to have the power to enforce laws, resolve conflicts, provide public services, and support the economic institutions that create economic opportunities and incentives. Thus equally essential is the capacity of the state so long as it is matched with society's ability to control it.

IN REVIEW

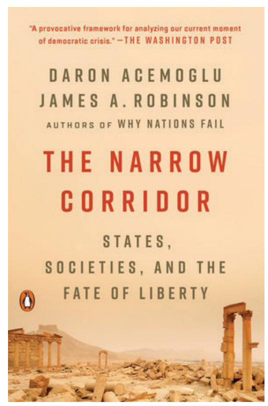
Different societies occupy different spots in the corridor. As new problems appear that require collective action, both state capacity and democratic social power will grow. Societies will move up in the corridor. Acemoglu and Robinson describe as "the Red Queen effect" this race between, on the one hand, a state offering more and more public goods, social services, solutions to externalities, control of monopolies, public health care, and so on and so forth; and, on the other hand, society's democratic control over Leviathan. As the Red Queen explained in Lewis Carol's *Through the Looking-Glass*, everybody has to run just to stay where they are. Similarly, if a society is to stay in the corridor, Leviathan's power must grow to respond to increasing popular demands and social power must grow to keep Leviathan shackled.

This way, liberty increases—or at least it does not decrease—as societies move along the corridor, or from outside the corridor to within it. "True liberty" needs a shackled Leviathan. Or so argue the authors of *The Narrow Corridor.*

Cage of norms / Before looking at the problems in *The Narrow Corridor*, we should acknowledge that what Acemoglu and Robinson call the cage of norms in the absence of Leviathan probably constitutes one the most serious arguments against anarchy. To avoid continuous violence in a stateless society, the argument goes, the relations between its members have to be coordinated by very strict social norms. (See "The Valium of the People," Spring 2016.) By localizing power in a limited state (the shackled Leviathan), it can be better controlled and liberty can develop. However, this argument—even if true—does not give carte blanche to Leviathan's capacity.

One problem is that the state often strengthens rather than dismantles the cage of norms. As shown by Acemoglu and Robinson themselves, Saudi Arabia and other Middle Eastern states have historically enforced Islamic religious rules, the Sharia, because it was in their interest to do so. If most individuals ("society") believe in some anti-individualist superstitions, the state is likely to enforce them, to lend them its own force of arms. At the minimum, it will not directly intervene against these social norms, especially at the local level where the violence often happens.

Acemoglu and Robinson tell horrible stories about India's surviving caste system and its frequently violent discrimination, as well as about other countries outside the corridor. It's not certain that a more powerful state would better challenge injustices. The Islamic State certainly did not. The Taliban offer another telling example.



The Narrow Corridor: States, Societies, and the Fate of Liberty

By Daron Acemoglu and James A. Robinson

576 pp.; Penguin Press, 2019

This criticism of the supposedly beneficial race between the state and society is even stronger if, by "the state," we mean the whole structure of organized coercion by political authorities, including at the local level. If "society" wants to ban somebody who has violated some norm, there must be some power physically capable of throwing the culprit out of the village or bullying him into leaving, preventing his return, and stopping other individuals from dealing with him.

It is typically when prevailing norms threaten the state's power that it will try to uproot them. This is in large part the history of the French Revolution, especially its more violent period starting in 1793. As many observers noted, from Alexis de Tocqueville to Bertrand de Jouvenel, the revolutionaries wished to uproot any trace of the ancien régime, from political institutions to religious and educational institutions, and even the family. As a result, the isolated individual found himself under the total control of the new republican Leviathan, with long-lasting consequences. It would be interesting if Acemoglu and Robinson tried to apply their model to the French Revolution.

With the Enlightenment, modern societies have developed what Nobel economics laureate Friedrich Hayek called an "abstract order" that is the opposite of the cage of norms. (See "Against Tribal Instincts," Spring 2018.) In these conditions, it is less certain that the only alternative is between a shackled Leviathan and a dangerous or stifling anarchy. A stateless society based on a Humean sort of spontaneous conventions, which corresponds to what both Adam Smith and Anthony de Jasay were thinking of, could conceivably find a place in another narrow corridor. At least, the question must be raised.

It is not impossible that a new cage of repressive woke norms has been developing over the past decades. But note that this new cage has been mightily supported by the state through its subsidization of universities and encouragement of woke causes with billions of dollars. This further argues against a total rejection of anarchy.

Acemoglu and Robinson claim that Western countries were able to develop state capacity (along with more democracy and liberty after the Red Queen did its magic) because they benefited from the heritage of the Roman Empire's state institutions. This is far from sure. In his book *Escape from Rome*, Stanford University's Walter Sheidel persuasively argues the contrary: liberty and prosperity grew in the West thanks to the anarchy brought about by the fall of the Western Roman Empire. (See "Let's Travel That Road Again," Spring 2020.)

The few ancient societies that prospered and offered some degree of individual liberty, such as classical Athens or the commercial communes of Italy around the 10th century, had elaborate institutions, including democratic ones, to prevent the rise of a despot. Yet, it is notable that only a few centuries sufficed for despotic Leviathans to engulf them. Can a Red Queen rat race between the state and society really prevent this fate from hitting modern societies? Is this time different?

Murky society, murky politics / Using "society" as a variable in a political model increases the risk of viewing it as an acting or thinking entity. Perhaps such organicist or collectivist rhetoric has a veneer of plausibility in the case of societies imprisoned in a tight cage of norms, but it is certainly dangerous when applied to modern and diversified societies. In the latter, the range of common individual preferences or values is very small and the number of genuine "public goods" (which are, by definition, unanimously desired) is very limited. Most government interventions in the name of "society" actually hurt some individuals in order to help others, a reality that should never be ignored. Speaking of "society's needs" or "society's desire" makes little sense.

The authors seem to argue, like populists, that a democratic system can shackle Leviathan because that is in the interest of "society." Do they fully realize that democratic processes can lead anywhere in policy space, as Kenneth Arrow and William Riker among others have shown? (See "Populist Choices Are Meaningless," Spring 2021.) The more politics gets pumped up by the Red Queen race, the more incoherent, chaotic, or dictatorial the results will be.

All these problems of society and government can be usefully analyzed with James Buchanan's concept of a liberal social contract. It is puzzling that nowhere is the Nobel economics prizewinner cited or even mentioned in *The Narrow Corridor*. The book suffers from a Buchanan deficit.

Reductio ad absurdum / We have seen that Acemoglu and Robinson's model suggests that an unending Red Queen race can or will lead to continuously growing state power and social power. But that is strictly impossible because we would eventually reach a situation where the (no longer) shackled Leviathan would have acquired total power over society, with the latter being totally powerful in resisting the former. This argument provides a sort of reductio ad absurdum of the Red Queen effect. Every growth in state power is necessarily accompanied by mandates, bans, and constraints imposed on individuals and therefore on society.

Recall Harvard philosopher Robert Nozick's allegory in *Anarchy, State and Utopia:* a master lets his 100 slaves make democratically all decisions about themselves, so that each one controls 1% of the life of every slave, including 1% of his own life. Each individual would be very close to totally powerless, just like the individual in an all-powerful society dominated by an all-powerful democratic Leviathan.

We must thus address the question of where the parallel growth of Leviathan and society should stop before liberty is irremediably compromised. Are we past that point? How do you want to stop Leviathan once it is clearly running ahead? Will "society" be able to tell Leviathan, "Stop a moment; I have to catch my breath"? Acemoglu and Robinson's model seems incapable of answering those questions.

This incapacity is all the more troubling as the logic of Acemoglu and Robinson still underestimates what we can call the "de Jasay effect": the more state capacity strengthens, the more valuable and necessary are the privileges granted by Leviathan, the more it is burdened by incompatible demands from different corners of society, and the more power it gains—and the vicious circle continues. Acemoglu and Robinson do detect the problem in what they call a "zero-sum Red Queen effect," where society loses what the state gains: it happened in Allende's Chile, in Chavez's Venezuela, in the Weimar Republic, and in other countries. But they don't seem to appreciate all the instability in the Red Queen's rat race.

"Liberty is always a work in progress," Acemoglu and Robinson write, which is certainly true. But the state is very far from helping as much as they claim. And what is liberty anyway?

What is liberty? / One confusion, suggested by Montesquieu, is between the power of the people ("society") and the liberty of the people as individuals. I would argue that this confusion oozes from the race between society and Leviathan as described in *The Narrow Corridor*. A related confusion, pointed out by Benjamin Constant, is between individual or modern liberty, and collective or ancient liberty. In an 1819 lecture in Paris, Constant explained that for the Ancients, liberty was the *collective* liberty of citizens to rule over minorities, while modern liberty is *individual* liberty, which allows each individual to literally govern himself to the greatest extent possible. The Red Queen doesn't see that clearly.

Contrary to what Acemoglu and Robinson claim, the "essence of despotism" is not "the inability of society to organize and influence policy making outside the hierarchy of the state." Elected assemblies can be despotic. Despotism is the inability of individuals to satisfy their own peaceful preferences without violence or threats of violence from the government; despotism is the absence of individual liberty.

Closely related is the distinction between negative and positive liberty. As confirmed in the last chapter of *The Narrow Corridor*, Acemoglu and Robinson affirm the ideal of *positive liberty*—that is, the capacity of some individuals to do things and have stuff, even if it requires reducing the capacity of other individuals to pursue their own happiness. Contrary to this conception, *negative liberty* resides in the protection against the interference (or at least arbitrary interference) of political authorities in individual choices. Negative liberty is, by and large, to live and let live.

At least implicitly, then, Acemoglu and Robinson conceive liberty as the collective power of the people to allow a majority of individuals to exercise some positive freedoms. I suspect they would reply that these positive freedoms include the right to be free of violence and "dominance," and that they are also concerned about individual liberty. But they have offered no key to reconcile these different concepts of liberty. The stance they take in favor of the Progressive era and of Franklin D. Roosevelt and his New Deal, as well as their belief that the American Leviathan should grow larger, shows, I fear, where their heart is.

The concluding chapter of *The Narrow Corridor* criticizes Hayek's book *The Road to*

Serfdom for not understanding that Leviathan can be both shackled and powerful. Acemoglu and Robinson argue (although in different terms) that Hayek's fear of totalitarianism was misplaced because a totalitarian government, in the sense that its sphere embraces the totality of human activities, need not be dangerous. Look at the Danes who accept government surveillance because their shackled Leviathan can do no wrong! A more general criticism of Acemoglu and Robinson is that they neglect the soft tyranny "regulated, mild and peaceful" that Tocqueville forecasted for democratic regimes.

Politics without romance / The authors of *The Narrow Corridor* express their admiration for what used to be called "the Swedish model." Is that justified? Just a couple of indications: Sweden is the country where "social partners" (trade unions and big business) decide the conditions of employment over the head of individuals. The authors of *The Narrow Corridor* suggest that it might be better for the state to alter market prices than to redistribute income through taxes and subsidies. How is that to work? Like rent controls? According to the Organisation for Economic Co-operation and Development, Sweden has the most restrictive rent controls among its member states. A consequence is that the average waiting time for legally renting an apartment in Stockholm is eight to 10 years. It is difficult to square this approach with sound economics and even sound redistribution.

One sometimes gets the impression that countries like Sweden resemble the village in Patrick McGoohan's TV series *The Prisoner:* life is controlled and easy, everybody is smiling, and the only thing missing is *individual* liberty. Says Dan Klein, a George Mason University economist who spends much time in Sweden, "If you define 'liberty' to mean whatever it is that Sweden has today, then what Sweden has today is the ideal of liberty."

The Narrow Corridor presents a biased view of many types of federal regulation. Why aren't the authors more concerned about the next minority that the American Leviathan will discriminate against, redline, or spy on? There are powers that should not be available to either the federal Leviathan or to the Big Brother individual states ("Leviathan with a Human Face," Spring 2016). Especially at the current level of state capacity, any increase is difficult to justify.

Another weakness of the book is that it features little reflection, if any, on how political processes actually work in real-world democratic systems, accentuating what I've called its "Buchanan deficit." Passing the book's interesting ideas through the filter of public choice economics—"politics without romance," as Buchanan said—would improve it.

My negative criticisms don't imply that the book is not instructive. I have neglected many aspects of the analysis I agree with to concentrate on what can hopefully be improved. The authors ask many important questions about how individual liberty and autonomy can best be protected, even if their own conception of liberty is murky.

An improved and more useful study of the narrow corridor would, in my opinion, switch the normative positions of anarchy and the state. Instead of looking at how the state can protect "society" against anarchy, it would ask how the state can protect feasible anarchy—that is, whatever level of anarchy is possible. The normative primacy should go to anarchy, not to Leviathan. *R*

Where's the Beef?

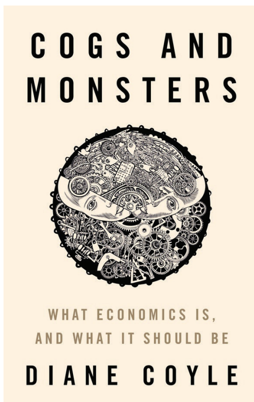
REVIEW BY DAVID R. HENDERSON

In her latest book, *Cogs and Monsters*, University of Cambridge economist Diane Coyle, co-director of the Bennett Institute for Public Policy, undertakes an ambitious project: to say what we need to change about economic thinking inherited from the 20th century to help us explain, understand, and make economic policy for the 21st century. Unfortunately, she rarely goes into specifics. Whether it be about how to measure well-being, what antitrust policy should be for an economy with industries in which one firm is dominant, or how large the role of government should be, she typically fails to pull the trigger. Along the way, she gives good examples of mistaken 20th century economic thinking without seeming to realize that her refutations can be accomplished with 20th century economic understanding. Although she has flashes of insight and affirms some important economic truths that economists have understood for more than a century, such flashes and affirmations are too rare in a 200+ page book.

The cogs in the title are "the self-interested individuals assumed by mainstream economics, interacting as independent, calculating agents in defined contexts." The monsters are "snowballing, socially-influenced, untethered phenomena of the digital economy, the unchartered territory where so much is still unknown." Coyle advocates that economists start thinking less about cogs and more about monsters.

Why the straddles? / In surveying 20th century economic thinking, Coyle gives some credit where it's due. She highlights, for example, economists' belief in school vouchers and trade liberalization and she seems to second those beliefs. She also quotes a beautiful passage from economist Paul Seabright about the international origins of the various components of a shirt, a quote that is reminiscent of Leonard Read's 1950s essay "I, Pencil." She could have titled the quote "I, Shirt." She understands Friedrich Hayek's insight, expressed in his 1945 article "The Use of Knowledge in Society," that only a market can aggregate individuals' local knowledge and that a central planner would not have access to that knowledge. Coyle also points out that economists' "market-oriented instincts" do not depend on understanding higher-level math. She writes, "Markets are far more useful in practice than they are in theory." Nicely said.

At times, though, she seems to straddle an issue by not taking a position. There's nothing wrong with that per se, but when one straddles, one should explain why. In discussing Harvard philosopher Michael Sandel's critique of markets (see "The Smart Philosopher vs. the People," Fall 2012), for example, she writes, "He argues for excluding medicine from the market—should only the rich be able to buy a kidney or a heart?" Because Coyle doesn't make clear whether this rhetorical question is Sandel's or hers, she leaves the reader wondering what her view is. The obvious economic answer is that allowing anyone to buy a kidney or heart—something that is illegal now—would give people a strong incentive to sell one kidney when they're alive and both kidneys and one heart when they die. That would enormously expand the number of hearts and kidneys supplied and would make not just rich people, but also many others, recipients of hearts and kidneys. If you found out about a GoFundMe for a modest-income neighbor who wanted a kidney for her daughter, wouldn't you contribute a few hundred dollars? I would.



Cogs and Monsters: What Economics Is, and What It Should Be

By Diane Coyle

257 pp.; Princeton University Press, 2021

Coyle's criticisms / In a chapter titled "The Economist as Outsider," Coyle criticizes economists, sometimes justifiably, for not thinking through counterfactuals. One of her main examples of this poor thinking, though, seems to be a different failing. The example is the complaint of premium headphone maker Sennheiser that fake Sennheisers cost it $2 million a year, a sizeable amount for a small company. How did the firm reach that estimate? By assuming that if fake sales had been prevented, everyone who bought a fake set at a much lower price would have instead paid the higher price for a genuine Sennheiser. But any economist who thinks clearly about the relationship between price and quantity demanded would know better than that. You could call the flawed estimate a bad counterfactual, but that seems like an overstatement. Most economists would say it's ignoring the law of demand.

Parenthetically, this failure to understand the law of demand is why so many people fall for U.S. companies' claims that Chinese firms' violation of their intellectual property (IP) causes them a huge loss. There is a loss, but it's overstated: with well-enforced IP rights, many of the current violators would not even be in the market.

Coyle criticizes the view of many economists that people are rational. There are reasonable ways to critique that view, but she chooses a strange example to make her case. She writes, "For instance, economics predicts that rational consumers will use [annual percentage interest rates] to compare the cost of loans, but if that were the case none of us would borrow on credit cards, never mind payday loans." She doesn't say why she thinks this follows from rationality. It doesn't. What about the young couple who really want to furnish their home and have, as their only option, a credit card? Or what about the young military enlistee who badly wants an Xbox but won't have the funds to pay for it until two weeks from now on pay day. How strained must her view of rationality be to argue that such choices are irrational?

Incentives and progress / One of the biggest surprises I noticed in her view of economics is her statement, "Competition is quite a tender plant." She explains, "The more successful, the larger, the more profitable and powerful the incumbents, the harder it is to maintain competition." Actually, something closer to the opposite is the case. The more profitable the incumbents are, the *greater* is the incentive for new competitors to enter the industry. As I put it to my students the first day of class, competition is a hardy weed, not a delicate flower. That's why so many competitors lobby various governments to limit competition, whether by licensing, high tariffs, or stingy import quotas: without such government restrictions, those firms would face tougher competition.

In discussing "the new agenda for economics in the digital economy," Coyle asks, "What kind of regulation and governance would make digital markets deliver broad social benefits?" Yet, by her own admission, they already do deliver broad social benefits even without new regulation and governance. She reports Stanford University economist Erik Brynjolfsson's finding that the average person would need to be compensated by a whopping $17,000 to give up search engines for a year and $6,000 to give up email. Of course, we should take such survey data with a large dose of salt. But even if those estimates overstate the true numbers by an order of magnitude, which I think implausible, those are still pretty big annual benefits for the average family.

Even more telling, in some ways, is Coyle's own testament to economic progress and growth. In a particularly eloquent passage, she writes:

> When I was a teenager in the 1970s, there was no internet or web, no mobile telephony, no personal computers or tablets or smartphones, and none of the services such as search, streaming music or movies, email, text messaging. Phones were tethered to the wall, usually in a cold hall (as central heating was far from universal), and the line was often shared with a neighbour. Vinyl was still on its first run although cassette tapes were now available as an alternative. Banking meant going to the high street and

> queuing. Cars used toxic leaded petrol, burned less efficiently, had no radios or electric windows, none of today's safety systems, still less built-in GPS and air conditioning. MRI scanners had not been invented, nor today's drugs for cancer; cataract and varicose vein surgery were not simple outpatient procedures. As well as obviously significant innovations like the internet or medical or pharmaceutical advances, there have been a multitude of incremental improvements in everyday life: outdoor gear made from fabrics that really do keep out the wind and rain, disposable contact lenses, tights that do not immediately ladder, the ability to watch TV programmes when you want, energy-efficient light bulbs.

Well said.

It probably is harder for a new entrant in the digital economy to displace a competitor because of two factors she discusses: large economies of scale and network effects. But here's my prediction that I'll put $1,000 on and give odds of 4:1: five years from now, even without new regulation, Facebook and Google will be substantially less dominant in their current markets than they are today. I offer this bet, not because I know how the competition will happen. I don't know and that's the point. Precisely because we pedestrian economists don't know and because government officials know even less, we should loudly advocate that governments let competition rip unhindered by regulation.

Criticizing Coyle / Coyle is concerned that young economics students aren't learning much economic history. I agree. The cost of focusing on complicated math is high: there's no time for learning much about 19th century or even 20th century economies. At times, though, she shows her own ignorance of history. She refers, for example, to the Gilded Age of the 1920s; the Gilded Age actually took place in the late 19th century.

A more important failure of hers is one of omission: She credits financial economist and Nobel economics prizewinner Robert Shiller for his warning in 2000 that the stock market was in a bubble. Of course, it did crash, once in 2000 and again in 2008. But a reader unfamiliar with history won't learn from Coyle's book that at the time of Shiller's warning, the Dow Jones Industrial Average was around 11,000 and the S&P 500 was around 2,200. Now the Dow is at about 35,000 and the S&P is at about 4,300. In both cases, that more than compensates for inflation; moreover, the gain in both indices badly understates the gain to people who reinvested their dividends in the stock market. Some bubble!

We economists may need to adjust our thinking in light of the huge economies of scale and network effects in so much of contemporary economies. Unfortunately, *Cogs and Monsters*, although it tries, doesn't make that case. *R*

The History of Money in Podcast-Sized Bites

REVIEW BY VERN MCKINLEY

Learning to use money is something we do as we mature, and we make adjustments in how we use it along the way, such as downloading and learning to use Venmo or other money payment apps. Despite this process, we usually take the concept of money for granted and do not spend much time thinking deeply about it.

One person who has thought about it is Jacob Goldstein, the cohost of National Public Radio's podcast and blog *Planet Money*, which explain money-related topics in a way that is understandable to a general audience. In his new book *Money*, Goldstein thinks through what money is, describes how it developed historically and where it stands today, and offers thoughts on what its future holds. He uses the same approach that he does on *Planet Money*: develop brief, entertaining, and engaging narratives to cover a single or a few money-related topics in a manageable slice of a reader's or listener's time (in the case of this book, chapters run about 10–15 pages). *Money* is Goldstein's first book.

What is money? / The book's first challenge is defining money. Economics textbooks often do this by listing a few of its basic properties, such as that it is a store of value. Goldstein, in his "Author's note," takes a very different approach, writing that money "is fiction," "a made-up thing," "unalterably social," and that it is something created "out of thin air." These statements make clear to the reader that his approach will not involve setting forth rote definitions to memorize, but rather will involve giving the reader a continuous stream of historical examples of money. As he explains, "These origin stories of money are the best way I know to understand what money is, and the power it has, and what we fight about when we fight about money."

It is impossible in a short review to summarize all the individual historical examples Goldstein provides in *Money*, but I will focus on a few of them and consider how he leverages these cases to introduce key money topics.

What is inflation? / To illustrate the concept of inflation, he does not use the 1970s "stagflation" that many contemporary readers are familiar with, but instead he turns to 18th century France. The central character of this case study is the notorious Scottish economist John Law, who Goldstein weaves through his narrative for much of the first third of the book. He writes that Law "creates a modern economy for an entire nation, becomes the richest non-king in the world, and seizes control of nearly half of what is now the continental United States."

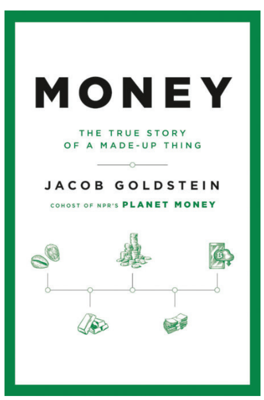
Law created Banque Générale (BG) in France, loosely modeled after the Bank of England (BoE), and explains how its policies ultimately unleashed inflation on the French economy to disastrous results. Law sold stock in BG to investors, just as BoE shares were sold. He then bought up a quarter of the available stock himself and leveraged his friendship with the Duke of Orléans, who was Regent of France, ruling on behalf of King Louis XV (a minor). The French economy had just suffered a collapse after the government borrowed excessively to fund a series of wars. Orléans made Law the government's banker and BG printed paper notes that became the official means for paying government taxes:

> When the Regent forced people to use paper to pay their taxes, John Law's paper became money.... People found that they liked Law's paper money—it was, in fact, easier to use than gold or silver.... By making loans and creating money, Law's bank did seem to be giving the French economy a useful boost.

Soon, BG took on more of the government's borrowing business. Its stock rose six-fold and even more BG shares were sold:

> France boomed. Money was everywhere.... All that new money floating around was driving up the price of basic staples like wheat, candles and milk.... Prices nearly doubled.

To address the building inflation, Law reversed course and tried a variety of methods to slam the brakes on the supply of money. That crashed the French economy and Law had to flee the country.



Money: The True Story of a Made-Up Thing
By Jacob Goldstein
272 pp.; Hachette Books, 2020

What happened during the 2000s financial crisis? / Goldstein gives his take on the 2007–2009 financial crisis in a chapter called "How Two Guys in a Room Invented a New Kind of Money." He starts off with what he calls the "standard story" of the crisis:

> Shady lenders gave ridiculous mortgages to unqualified buyers of overpriced homes. The ridiculous mortgages were then bundled together, sliced up and sold to investors. When housing prices started to fall, the unqualified buyers couldn't pay back the ridiculous mortgages. The investors who bought the bundles of ridiculous mortgages blew up and took the economy down with them.

I would assign a failing grade to Goldstein for this introduction because he makes no mention of either the government creating multiple incentives (including low-cost money) for the unqualified borrowers to take ridiculous mortgages from shady lenders, or the government authorities responsible for overseeing the financial system being completely blindsided by the entire mess and applying inconsistent and ill-considered measures in response.

The book then turns its attention to the "two guys" mentioned in the chapter title who invented money market mutual funds (MMMFs). Those institutions experienced a run and were the recipients of a bailout in 2008. Frankly, if I were to write just one chapter on the financial crisis, as Goldstein does, I would not have devoted much space to MMMFs. Their potential losses were not at the core of the crisis, although their near failure was a knock-on effect of the uncertainty created by the government's opaque approach to its plethora of bailouts and other interventions.

Goldstein closes the chapter by bemoaning the repeat of history during the COVID pandemic. He writes that "people once again started frantically pulling billions of dollars out of money-market funds." He correctly highlights the fact that "the US government once again rushed to protect the funds," but ignores the broader scope of repeated bailouts of large financial institutions and the backstopping of markets over many decades.

Digital cash and the future of money / The closing chapters address current hot money topics such as the digital cryptocurrency bitcoin and the Modern Monetary Theory (MMT) school of thought.

This section starts with the saga of David Chaum, an expert in cryptography and the inventor during the 1980s of digital anonymous money, who authored an academic article entitled "Security Without Identification: Transaction Systems to Make Big Brother Obsolete." He was concerned about the privacy implications of then-existing money payment methods. Goldstein sprinkles multiple references to the libertarian "radical programmers" who, along with Chaum, drove this movement: "They realized digital cash could create a stateless libertarian paradise."

This historical summary inevitably leads to a discussion of the history of bitcoin and its pseudonymous creator, Satoshi Nakamato:

> The point of bitcoin is that no one is in charge.... Money is always and everywhere based on trust.... Bitcoin is also based on trust. But the dream of bitcoin is that you don't have to trust a government, or a bank, or Satoshi Nakamato; you just have to trust the [computer] code.

Goldstein traces a bitcoin's value from nothing, to one-third of a cent, to $13,000 and beyond, closing with this lesson on the history of the developers of digital money alternatives:

> Someone ... has a very clever technological breakthrough. Then they climb up to the mountaintop and proclaim to the

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> world: "Here is a new kind of money! And then it doesn't really become money. Or at least it hasn't yet.

So much for a stateless libertarian paradise.

Goldstein discusses Modern Monetary Theory (MMT) in the book's final chapter, titled "A World Where the Government Prints Money and Gives It to Anybody Who Wants a Job." He rightly refers to MMT as "a weird new way of thinking about money." Like bitcoin, experimentation with MMT has yet to fully play out, but the recent spike in inflation seems to indicate the naiveté of those advocates of MMT who argued that massive fiscal commitments, combined with a highly accommodative money stance from the Federal Reserve, would lead to stable, non-inflationary prosperity for all.

Needless to say, an 800-year history of money that is shoehorned into a little over 200 pages may leave readers schooled in finance a bit unsatisfied. Goldstein does have about a dozen pages of notes for the benefit of readers who want to dig a bit deeper, but there are evident gaps between the historical topics discussed in the book and the available underlying citations. R

Assessing a Century of Mortgage Market Interventions

REVIEW BY VERN MCKINLEY

An objective review of the U.S. mortgage market finds government intervention on top of government intervention on top of government intervention. The result? The two government-sponsored secondary mortgage giants, Fannie Mae and Freddie Mac, have been in full government conservatorship for 13 years, with no exit to full privatization in sight. Under COVID, forbearance on mortgage payments for millions of loans across a range of government mortgage programs has been imposed on lenders for over a year. Ultra-low interest rates promoted by the Federal Reserve have contributed to a spike in home values, pricing many potential buyers out of the market. The Federal Reserve is also buying mortgages at a clip of $40 billion a month.

The genesis of this ongoing version of Washington "Keystone Cops," with a perpetual cycle of distortive interventions, followed by bubbles, followed by crashes and bailouts, extends back to the early days of the 20th century. Judge Glock, a scholar at the Cicero Institute, has undertaken painstaking research into the legislative and policy history of mortgage and related agricultural land policy in his well-timed first book, *The Dead Pledge.*

"Privilege" morphs into "balance" / Glock begins his historical review by explaining that the Democratic Party of Andrew Jackson stood hard and fast against legislative privilege for politically powerful groups. "In Jackson's view," Glock writes, "the central desideratum of government was to provide equal protection of the laws to all and to abjure special privileges to any.… The president had a special duty to protect the public from the grasping pleas of special interests." To that end, Jackson vetoed the re-chartering of the Second Bank of the United States in 1832, which was "the grant of a special privilege by the government to one group of men … [and his veto] protected 'the humble members of society—the farmers, mechanics, and laborers.'"

But by the Progressive Era, the Democratic Party had abandoned this stance and instead advocated granting privileges to special interests that were deemed deserving. Glock explains the rationalization for the change:

> Certain interest groups and intellectuals began to claim that the old idea of equal protection would still leave some groups behind. They advocated that the government act as a force intervening directly for the benefit of certain classes in order to "balance" different economic sectors. Stagnant agriculture and booming industry especially needed to be brought into some new sort of equality.

A flurry of big-government interventions / Glock traces through some of the activist legislation of the Progressive Era, all approved during Woodrow Wilson's administration and all intertwined and reinforcing: the Federal Reserve Act (FRA, 1913); the Federal Farm Loan Act (FFLA, 1916); and the War Finance Corporation Act (WFCA, 1918).

The FRA and FFLA created banks that were a hybrid of government and private institutions, privately owned but government-backed, what Glock references throughout *Dead Pledge* as "semipublic" institutions. This started with the Federal Reserve Banks: "The federal guarantee established a precedent. Although in the pre-Jackson era the government had invested in some private corporations…, it had never before given its complete credit to a private or semiprivate organization." The FRA also granted national banks the power to grant loans on farmland.

The FFLA was modeled on the FRA. Glock writes, "Almost all of the important revisions in the act were done to inspire more confidence in the financial world and … to make the [FFLA] 'harmonious with the Federal Reserve Act, which it mirrored in many respects." The FFLA also included a mandate for the government to purchase stock in the Federal Land Banks (FLBs) created as part of the legislation. The FLBs were defined as "instrumentalities" of the federal government in the final legislation, with an "implicit guarantee from the government," a structure that would "help market its bonds to the investing public."

Finally, the WFCA "created a new semipublic corporation that guaranteed bank loans to necessitous war industries…, which became another implicitly backed government enterprise that aimed to support banks and investors." The WFC itself lingered well beyond wartime, cooperating with the Federal Reserve Banks and FLBs to support the weak bank and agricultural lending sector. Collectively, Glock referred to this legislation as "a new era of government-privileged banks." The bank lobby and the farm lobby were united in support of these semipublic institutions.

Continuity and predictable outcomes / The subsequent Republican administrations under Warren Harding and Calvin Coolidge did little to reverse the momentum of these proliferating semipublic institutions. Instead, they became more entrenched during the 1920s in what Glock refers to as a state of "continuity of political support." Harding rode into office "on the pleas of farmers oppressed by the panic" building in the farm belt. In an early State of the Union message, he took on the rhetoric of those desiring explicit intervention favorable to the agricultural sector in order to "restore the proper balance between city and country."

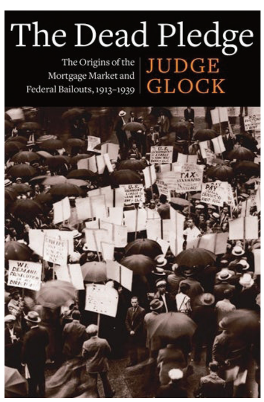
As a result, Republicans and Democrats alike were responsible for the cocktail of conflicts of interest, nepotism in hiring, and the rapidly weakening condition of the FLBs that flowed from their rapid growth. According to Glock, Charles Lobdell, one of the four original members of the Federal Farm Loan Board that oversaw the FLBs and "Republican standard-bearer…, rarely missed an opportunity to feather his own nest." Treasury Secretary Andrew Mellon bemoaned those who were "daily leaving the public service and taking advantage of the information that they acquired in public service for private gain adverse to the government."

The deep recession of 1920–1921 hit the agricultural sector particularly hard as "crop prices collapsed," harming farmers' ability to pay their debts. That, in turn, weakened the FLBs and commercial banks. This would linger throughout the decade:

> Mortgage debts, so freely given by both the Land Banks and private banks during the boom and based on inflated crop and land prices, now proved burdensome…. [This] stress … was particularly severe because of a large increase in the number of farms mortgaged and the amount of mortgage indebtedness.

By the mid-1920s, the Spokane, WA FLB was in poor condition, with delinquent loans exceeding 25% of total loans. An investigative committee found it was on "the brink of failure," and it was placed in a form of bankruptcy overseen by a committee of the other FLBs, which extended \$4 million of support. Not surprisingly, the Spokane FLB had received "the most sustained political pressure for loans," and in order to keep the loans coming, it was "lying about its finances."

By 1932, with Herbert Hoover in the White House, one of his appointees proposed a plan to "bail out the Land banks…, the first explicit bank bailout of a financial institution by the federal government…. The government would become a part owner of the new system in order to prevent its collapse." The Reconstruction Finance Corporation (RFC), a government bailout entity, provided further aid for the Land Banks. Hoover also secured creation of the Federal Home Loan Banks, which were based on the failing FLB business model. They "would support the small urban mortgages made by banks and building and loans."



The Dead Pledge: The Origins of the Mortgage Market and Federal Bailouts, 1913–1939

By Judge Glock

304 pp.; Columbia University Press, 2021

These actions were only the first of what would become a familiar vicious cycle for semipublic corporations of increased mortgage debt, an inflated asset bubble, followed by recession and a bailout.

Doubling down on the mortgage market / Those commitments to propping up the mortgage market were just the beginning. As the Great Depression began to accelerate, farm foreclosures spiked and Franklin D. Roosevelt was inaugurated after a campaign emphasizing the devastation of the foreclosures. A further layer of government corporations was created to go on top of the earlier ones. Roosevelt told one of his advisers to flood the banks with more cash: "If you and I force these funds on [the banks], they will have to act in accordance with our desires."

Glock describes the overall objective: Roosevelt "focused on restoring farm purchasing power and fixing farm mortgages as the means to reestablish prosperity." An executive order centralized rural credit programs into the Farm Credit Administration and employees under its umbrella swelled from 2,500 to 10,000 in 1933, managing \$3 billion in assets and earning the nickname "the world's largest bank." The government's share of the farm mortgage market broke the 50% mark, more than doubling its share under the old land bank system. The Federal Savings and Loan Insurance Corporation was also created, which would approach failure decades later, requiring a massive bailout.

Some of the New Deal's programs were at cross-purposes. The National Industrial Recovery Act of 1933, in an effort to balance production across sectors, "tended to reduce competition and raise prices," including higher building costs. So much for a robust housing recovery. Amid calls for more action, even the president became frustrated with the massive mortgage interventions that did not appear to improve the market:

> Roosevelt raged against the expansion of guarantees. He said that people "should be told all the different things the government cannot do…. You know we

are getting requests practically to finance the entire United States."

Complementing the work of the Roosevelt administration, the Federal Reserve broadened the types of loans eligible for discounting:

> [Fed Chairman Marriner] Eccles agreed that specifically allowing mortgage discounts at the Federal Reserve would help because, with constant access to the Fed, "the mortgages in the banks might be given the liquidity needed." … In effect Eccles wanted to socialize liquidity, to make the salability of all financial assets a government-guaranteed benefit.

The Fed also adopted a policy of "low interest rates as a continued encouragement to capital expenditures, including housing." On other fronts, the newly created Federal Housing Administration (FHA) ramped up its coordination with the Federal Reserve and commercial banks to convert traditional mortgages to FHA-insured mortgages, and the RFC created its own mortgage company to offer mortgages directly. But as Glock explains: "Unfortunately for Roosevelt, the much-promised housing revival never happened.… Part of the problem was that the … new RFC and FHA loans … simply refinanced existing mortgages."

With all the disparate agencies taking on so many tasks in the mortgage market, 37 federal agencies in all, "Roosevelt declared housing policy 'to be in a mess.'" A Central Housing Committee was added to coordinate all these agencies, becoming the 38th. Notwithstanding four years of stimulus, including to the mortgage market in particular, the economy slipped into recession by early 1937. The response was yet more intervention, as Fannie Mae was created with RFC funds in 1938. It would approach failure decades later, requiring bailouts more than once.

Conclusion / *The Dead Pledge* is a very detailed, well-documented (70 pages of endnotes), and readable history of the mortgage market during the first half of the 20th century. I learned quite a bit in an area that I have researched extensively. I would quibble with a few of the statements set forth in the book; for example, I don't believe labeling the bailout of the Federal Land Banks during the early 1930s as the "first explicit bailout of a financial institution by the federal government" is accurate. But these are very minor quibbles, and I give the book a strong recommendation.

With only a few exceptions, Glock does not aggressively take one side or the other on the policy development of the mortgage market, but presents the historical details for the objective assessment of the reader. To me, the historical details make crystal clear that heavy intervention by the government in the mortgage market has put it "in a mess" (to use Roosevelt's description), and it continues to be so to this day. The mortgage market is entirely removed from a free market and, sadly, vested interests will keep it that way for decades to come. R

From the Past

Where Are We on the Road to Serfdom?

REVIEW BY PIERRE LEMIEUX

Can tyranny happen here? It's hard for a supporter of individual liberty to answer "no" definitively. In some ways, liberty has been shored up over the past hundred years, but at the same time the power of the state (the whole apparatus of federal, state, and local governments) has generally increased. The interventions following the 9/11 terrorist attacks and the recent COVID pandemic show how powerful governments have become. The change in the U.S. presidency earlier this year showed that, as apparently different as Donald Trump and Joe Biden are, they both want to use expansive government to intervene in people's lives. (See "You Didn't See It Coming," Winter 2018–2019; "Joe Biden's Economic Agenda," Spring 2021.)

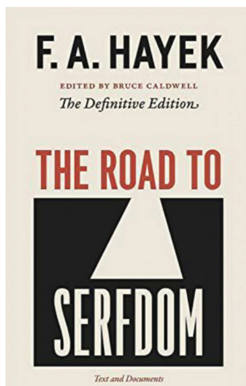
One of the great warnings of government's threat to liberty, Friedrich Hayek's *The Road to Serfdom*, is more than 75 years old, yet it has renewed relevance. Although it was very popular after it was first published in 1944, Hayek complained that it was less well-received by the American intelligentsia than by their British counterparts. The future winner of the 1974 Nobel economics prize argued that economic planning and its supporting ideologies were a threat not only to prosperity, but also to individual liberty. Western societies, he claimed, were on the road to serfdom, the same road traveled by Germany.

Economic planning / Hayek began working on the book around the start of World War II. He argued that the growing popularity of government economic planning had deep intellectual roots in socialism, often traceable to Germany three-quarters of a century before. In the late 19th century, Germany was arguably the most advanced country in the world, where "all the social and political forces of modern civilization have reached their most advanced form," as Hayek quoted American theologian Reinhold Niebuhr observing. That seemingly made Germany inhospitable to a group of homicidal authoritarians—and yet, that's who came to power.

The experience of wartime planning boosted the reputation of economic planning. In the foreword to the 1956 edition of *The Road to Serfdom*, Hayek observed that in 1947 the United Kingdom's Labour government issued an order that could have allowed it to punish workers who would not accept jobs considered high priority. It is doubtful, he wrote, "whether it can be said that the Rule of Law still prevails in Britain." In both the UK and America, "only those whose memory goes back to the years before [World War I] know what a liberal world has been like."

Despite those strong words, Hayek was emphatically not an advocate of laissez-faire, the minimal state, or extreme libertarianism at the time he wrote *The Road to Serfdom*. He believed that the state had an active role to play in defining property rights, countering externalities (see p. 18), ensuring the conditions of competition and macroeconomic stability, preventing monopolies, and offering a safety net against poverty. In case of "war and other temporary disasters," freedoms could be suspended provided the suspensions were temporary and necessary to protect freedom itself. He said nothing against military conscription in wartime. (In many ways, he became more radical as his ideas later developed.)

The only minimal state envisioned in *The Road to Serfdom* was his proposal for an ideal world federal government, discussed in the book's last chapter. It is not the best chapter. Hayek's world government would only intervene to prevent war and tyranny and impose a minimum rule of law everywhere. How this world government would remain minimal, and how we could retreat from it if it did not, he did not explain.



Fatal conceit / Hayek was a classical liberal who still claimed the label "liberal," with its original content of economic freedom, limited government, and the rule of law. In America, the meaning of "liberal" had already drifted to meaning left-of-center, progressive, soft-socialist.

The economic problem of government planning is that the central planners do not and cannot have the required information on utility, costs, and local circumstances to make sound decisions. This information is dispersed in the minds of all consumers and producers. Only competitive markets can efficiently coordinate the actions of individuals without government coercion. Instead of bringing security, government intervention (at least at some level) disrupts economic efficiency and increases insecurity. Hayek had introduced these ideas on planning before and would further develop them later. (See "Against Tribal Instincts," Spring 2018.)

Economic planning reduces the freedom of the individual. Italian fascist leader Benito Mussolini, who thought that this constriction of liberty was inevitable and good, explained that "the more complicated the forms assumed by civilization, the more restricted the freedom of the individual must become." Hayek argued that, on the contrary, it is individual liberty and economic freedom that make a complex civilization possible. State direction and authoritarianism stifle diversity and complexity.

Economic planning offers illusory hopes. Many people thought it would relieve citizens of the burden of inferior economic activity. But economic activity is only inferior in the sense that free individuals use their budgets as they see fit to satisfy what they consider their most important desires. A "mere" economic loss matters less when an individual can reallocate his budget from what he values less to what he values more. Hayek brilliantly explained:

> So long as we can freely dispose over our income and all our possessions, economic loss will always deprive us only of what we regard the least important of the desires we are able to satisfy. … Economic values are less important to us than many things precisely because in economic matters we are free to decide what to us is more, and what less, important.

If the government, through economic planning, directly or indirectly decides what we may consume and in what quantity (or quality), an individual will not be able to organize or reorganize his affairs according to his own priorities. The collectivity, "society," and in fact the government will decide what the economic priorities are for everybody. For example, when foreign exchange is controlled (as it was in Europe during World War II and for many years after), an individual's capacity to travel is severely limited: not only is he limited to purchasing the amount of foreign currencies allowed by the government, but foreign suppliers will not honor his credit cards.

Totalitarian danger / Hayek crucially demonstrated how economic planning is politically dangerous—that is, dangerous for individual liberty. On the market, everybody can buy the tie or car he likes (among those he can afford); not so when central planners decide, directly or indirectly, which sorts of ties or cars are made. Individuals with minority preferences will be short-changed. Just think of what *you* would not be allowed to consume if the majority were to decide for you.

Planning breeds discord and resentment. Every supporter of planning thinks that it is his preferences and values that will guide the economy, but other supporters also have their own preferences and values; many or most of those are different and will be bulldozed when planning is implemented. To try to please and pacify dissatisfied groups, the state will need to plan more. Tugs-of-war will emerge between collectivist factions, which are all in favor of central planning provided they are the ones doing the planning.

If the government effectively plans the economy in the sense that it decides what will be produced or not, or in what quantities, it will also have to "control the entry in the different trades and occupations" at least indirectly by determining "the terms of remuneration." As Richard Acland, founder of the British socialist Commonwealth Party, wrote during World War II, "It must be the community as a whole which will decide whether or not a man shall be employed upon our resources, and how and when and in which matter he shall work."

Planning gives more economic power to the planning authority than any private party can have in free market transactions. As Hayek writes, "It creates a degree of dependence scarcely distinguishable from slavery." Supposedly backed by the sacralized collectivity, government planners will think that the goals pursued are supreme values and that the means justify the ends—a moral principle absent from individualist ethics. Successful planning implies the tyranny of either the majority or of a minority.

Nazism and socialism / The Nazi experiment was just one extreme case (although the Soviet experiment was a good one too). However you twist the pretzel, the Nazis were both nationalists and socialists, as the name of their party clearly indicated.

Many Nazis or Nazi forerunners came from Marxism or socialism. Professor Werner Sombart, a former Marxian socialist, had welcomed World War I as the "German War" in defense of the "German idea of the state" against the commercial civilization of England. This German state stood over and above individuals, who had no rights but only duties. Nazi philosopher of history Oswald Spengler thought that Prussianism (the German ideal of the state) and socialism were the same. Moeller van den Bruck, whom Hayek describes as "the patron saint of National Socialism," thought that the classical liberals were the archenemy.

Although Hitler was a politician and not a political philosopher by a long stretch (a very long stretch), he was quoted as saying that "basically National Socialism and Marxism are the same." Hayek tells us that, according to a leader of German "religious socialism," liberalism was the doctrine most hated by Hitler. On the softer fascist side, Mussolini himself was a former socialist.

Socialists bear this stain. They have tried to erase it by making it impossible to mention Hitler or Mussolini when discussing the dangers of socialism, as if they had no relation with anything that can happen now…

Individualism and collectivism / Socialism and fascism are different sorts of collectivism (except perhaps for so-called "market socialists," who are not very realistic). As a political system, Hayek writes that individualism recognizes the individual as "the ultimate judge of his ends." He affirms that "as far as possible [the individual's] own views should govern his actions. … Common action is thus limited to the fields where people agree on common ends"—"ends" in the sense of preferences and values. Collectivism, on the contrary, pretends to impose a single scale of preferences and values on all individuals.

Since even parliaments cannot agree on a single scale of preferences and values, collective decisions must in practice be delegated to experts or to a ruler like Hitler, "strong enough to get things done." Planning is thus incompatible with democracy, except in the sense of majoritarian and totalitarian democracy. Collectivists love government power because it is the means for them to impose their wishes on recalcitrant individuals.

To give a flavor of the times in which Hayek was working on *The Road to Serfdom*, C.H. Waddington, a British scientist and philosopher who favored central planning, thought that Marxism was a "profound scientific philosophy." In this perspective, Waddington wrote, "the freedom to be odd and unlike one's neighbor is not … a scientific value."

The totalitarians were united by their hate for liberalism because it represented what Hayek saw as "the individualist tradition which has created Western civilization."

Rule of law / Hayek explained how central economic planning and powerful governments are not consistent with the rule of law. The rule of law is based on "formal rules … intended for such long periods that it is impossible to know whether they will assist particular people rather than others." Laws are general and abstract; they don't intentionally "take sides" in favor of some identifiable individuals and against others. The rule of law implies that the government itself "in all its actions is bound by rules fixed and announced beforehand," which allows individuals to plan their actions without fear of ad hoc government interventions.

If the planners divert resources from manufacturing paper to manufacturing steel, they take sides with buyers of cars against, say, buyers of books.

The idea of the rule of law, which Hayek identified as "the legal embodiment of freedom," was to become the kernel of his social, political, and economic theory. This can be seen in his later *The Constitution of Liberty* (1960) and his three-volume series *Law, Legislation and Liberty* (1971–1979).

Economic planning, on the contrary, requires ad hoc decisions dependent on concrete circumstances and constantly interferes with the private plans of individuals. The planning state is bound to continuously prevent individuals from using their own means to satisfy their own preferences. For example, if the planners divert resources from manufacturing paper to manufacturing steel, they take sides with buyers of cars against, say, buyers of books.

Rule by the worst / As the state gains power, the more likely it becomes that the worst people will become the rulers. A totalitarian dictator relies for support on "the largest single group … whose members agree sufficiently to make unified direction of all affairs possible." This high degree of uniformity will be found among those with "lower moral and intellectual standards" and "the more primitive and 'common' instincts and tastes." The dictator will most easily "obtain the support of the docile and gullible." It is also "easier for people to agree on a negative program—on the hatred of an enemy, on the envy of those better off—than on any positive task." Finally, the idea that collectivist ends justify the means will attract the ruthless and unscrupulous to government and planning jobs; others will largely stay away.

These conjectures would also apply to a tyranny of the majority or to the man incarnating "the people." More generally, and even before a dictatorship is effectively established, the general moral atmosphere of power and economic control leads people to lose any "respect for the individual *qua* man instead of merely as a member of an organized group." Does this sound like today's America?

Crying wolf / If a wolf is lurking, it's a good idea to cry wolf, but neither too late nor too early. Too late, and nobody will be able to prepare to fight it off. Too early, and people will forget about the danger.

Did Hayek cry wolf too early? Or did the wolf never come, as some critics claim? In the West, there was no widespread Soviet-style public ownership of the means of production and no persistent central planning with direct allocation of resources. "Indicative planning" or five-year plans French-style did not last long and appear rather innocuous compared to the direst predictions of *The Road to Serfdom*.

In his preface to the 1976 edition, Hayek acknowledged this criticism: "Socialism has come to mean chiefly the extensive redistribution of incomes through taxation and the institutions of the welfare state." But although the process is different, he said, the consequences discussed in the book are simply "brought more slowly, indirectly and imperfectly."

It's a disguised wolf that came. The "monster state" did not come exactly as Hayek had forecasted and it may not yet be totalitarian, but it has become more and more encompassing. Government control has taken insidious forms. The regulatory state is represented by the more than one million interdictions in the Code of Federal Regulations and this does not include the state and local levels. The government does not directly or generally control people's choice of occupations, but access to one-fifth of occupations in America—from physicians down to plumbers and hair braiders—is controlled by state governments or by professional corporations under government auspices. One out of 13 American adults has a felony record, which greatly limits a person's economic and other opportunities. The reigning (albeit confused) ideal remains that collective choices should determine how society and the economy are organized. It is generally accepted that the "common welfare" as defined by the state must overrule individual welfare.

Bruce Caldwell, editor of the latest edition of *The Road to Serfdom*, suggests that Hayek's argument is not a historical argument but a logical one. Hayek (explicitly) does not claim that there is a historically determined necessity that some socialism—say, a mild welfare state—will lead to complete totalitarianism. His argument instead is that the *completion* of any socialist experiment logically requires a totalitarian government. In other words, it requires the transformation of society into a garrison or, as Anthony de Jasay argues in his 1985 book *The State*, a plantation.

The End of Truth / Perhaps the direst prediction of *The Road to Serfdom* and the one that seems the closest to current concerns comes in the chapter (fittingly) titled "The End of Truth." A totalitarian government must make people believe its propaganda about its values and goals, as well as the wisdom of the chosen means to those ends. Bringing people to approve the means involves peddling causal relationships whether they are true or not.

The propaganda of totalitarian governments is thus "destructive of all the foundations of all morals," which lie in "the sense of and respect for truth." Both in the Soviet Union and Nazi Germany, the ruling party was presented as the source of all truth. This generates a "spirit of complete cynicism as regards truth" and "the disappearance of the spirit of independent inquiry and of the belief in the power of rational conviction." It is true that, in the West, government propaganda and censorship have not grown to that point. In America, on the contrary, First Amendment protections were strengthened in the last three quarters of the 20th century. However, even here, governments and political parties have contributed to the debasement of the notion of the truth. The latest U.S. political developments reflect this.

Taking stock / If not all the predictions of *The Road to Serfdom* have been realized, many have been or, if nothing changes, soon will be. The goal of Soviet-style economic planning has crumbled, but the idea that government is responsible for the economy and for solving all problems by ad hoc interventions has become natural. Indeed, governments are continuously waging wars against this or that calamity, often recycling war metaphors (war on poverty, war on drugs, war on smoking, etc.). The supremacy of collective choices over individual choices has found practical acceptance among the political and intellectual establishments, if not in the majority of the population. The rule of law now refers to anything that is decreed as a law or a regulation. Very few people reflect on the danger of tyranny—and many of those who fear it don't reflect on it at all. The intellectual blindness and moral poverty of reigning elites vindicate Hayek's warnings of 1944.

There is another lesson and warning. Hayek argued that it was not only socialists but also conservatives who had prepared the way for the totalitarian episode in Germany and its milder Italian version. He noted that "it is 'conservative socialism' that is the dominant trend among us now." In Germany, there was even a movement called "conservative socialism," mainly influenced by the German Youth Movement. Caldwell writes that the group "called for an autarkic, planned national economy." Who will disagree that today in America, the conservatives and the many shades of socialists have united against classical liberalism and libertarianism?

A revival of the ideas Hayek defended in *The Road to Serfdom* is urgent. R