

## BOOK REVIEWS

### **Political Economy and Freedom**

G. Warren Nutter

Indianapolis: Liberty Press, 1983, 314 pp.

This book is a collection of papers by the late G. Warren Nutter, who died in 1979. The essays, many of them previously unpublished, were written mainly during the period from the mid-fifties to the mid-seventies. They have been well chosen to reflect the broad spectrum of Nutter's interests and his contributions to the field of political economy. Most of Nutter's career was spent at the University of Virginia, where he was chairman of the economics department for most of the 1960s. His four-year stint as Assistant Secretary of Defense for National Security Affairs from 1969 to 1973 provided him an opportunity to observe and participate in the "political economy" of U.S. policymaking in the critically important areas of defense and foreign affairs.

The 33 essays are grouped in three parts, each one focusing on a major area of Nutter's interest. The first group—15 papers—reflects Nutter's abiding conviction that human progress and personal liberty are best served by an economic system that maximizes the use of free competitive markets, endorses private ownership of the means of production, and limits the role of government. He also thought that such economic arrangements promote political freedom. As he points out in the essay "I Choose Capitalism," it comes as no surprise that "without exception Communist societies have been monistic and authoritarian, while capitalist societies are typically, though not always, pluralistic and liberal." Several papers are concerned with the relative extent of competition and monopoly in the American economy. These reflect one of Nutter's major research contributions—the finding that the degree of concentration in U.S. industry had not risen since the turn of the century. Other papers are related to his work on the measurement of trends in the size of the government sector and in explaining the reasons for its persistent expansion. Finally, in the essay "Markets Without Property: A Grand Illusion," Nutter stresses the inescapable link between the efficiency (pricing) behavior of a business firm and the nature of the ownership rights it

---

*Cato Journal*, Vol. 5, No. 1 (Spring/Summer 1985). Copyright © Cato Institute. All rights reserved.

holds, arguing (with Ludwig von Mises) that private ownership provides powerful incentives for economizing on scarce resources. Nutter would not be surprised to learn that would-be reformers in Hungary and Yugoslavia now are grappling with this fundamental issue—how to structure “socialist” property rights so as to induce efficient behavior from business firms. Certainly he would argue that the notion that genuine competitive markets can be created in Communist countries without dissolution of their authoritarian political order is a “grand illusion.”

In Part Two we have seven essays dealing with the centrally planned economies in Communist countries. Another of Nutter’s major research contributions was his pioneering study of the growth of industrial production in the Soviet Union. One of the essays summarizes the main findings of this study, which, although controversial when first published, have stood the test of time. Thus, Nutter expected Soviet industrial growth to slow secularly, as it has, to rates of under 3 percent annually by Western measures in the early 1980s. Nutter also stressed the peculiar structural pattern of Soviet industrial growth, a pattern “that would never be duplicated in a market economy. Sovereign consumers would not choose the paths of growth chosen by Soviet leaders.” Nutter surely would agree that the persistent adherence to such structurally unbalanced growth has contributed importantly to the present malaise in the Soviet economy. Along with the foreign policy ambitions of the Soviet leadership, it also helps to explain why the ordinary Soviet citizen, despite notable gains, is still pretty much “today’s forgotten man,” just as he was in the 1960s, when Nutter so characterized his lot. Several papers touch on the dilemma of economic reform in the Soviet Union. In words that still ring true in the 1980s, Nutter wrote “Soviet leaders of today face the dilemma of the czars. Like the czars, they know the economy is sick, but also like the czars, they fear that curing the patient will kill the doctor.”

Part Three brings together 11 essays, most of which deal with various aspects of U.S. foreign policy (as do some of those in Parts One and Two), particularly its economic aspects. Many of the issues and arguments raised in these papers written in the 1960s and early 1970s are timely today, when the United States must fashion a strategy to deal with difficult global issues made even more complex by growing ferment in the Third World, by allies in Europe and Japan made restive over increased deployment of nuclear arms and frictions over trade, and by a Soviet Union stronger than ever militarily but with a troubled economy and an energetic new leader perhaps proffering another era of detente. While strongly advocating controls on strategic trade with the Soviet Bloc, Nutter speaks of the folly of economic warfare in general and also of the illusion that the United States can “buy” loyalty and friendship through economic and military aid. With respect to superpower relations, he argues against the notion that U.S. policy can bring about internal liberalization in the Soviet Union. Rather, “our policy should be guided by

the goal of preserving our own free system. This is a time for hard bargaining, for insistence on a viable quid pro quo in the case of every action we might take to ease Soviet internal problems. . . ." And more generally, "How does a country of peaceful intent make its way through the maze of world politics? . . . It makes sure . . . that it has sufficient strength and resolution. . . . It seeks . . . the path of negotiation as far as other nations will go along. And it prepares itself, finally, to deter and if necessary, to repulse hostilities. To neglect any one of these elements of foreign policy is to invite disaster."

Gertrude E. Schroeder  
University of Virginia

**Power and Privilege: Labor Unions in America**

Morgan O. Reynolds

New York: Universe Books and the Manhattan Institute  
for Policy Research, 1984, 309 pp.

The purpose of this book is "to explain and interpret the behavior of unions and unionists—what they do, why they do it, and what effects their actions have . . . in light of contemporary economic analysis." Other labor economists have, of course, attempted this. But in my view none has succeeded as well as Professor Reynolds in cutting through the veil of rhetoric, emotion, and polemics that so often shrouds the activities and effects of unions in contemporary discussion. This is not an "anti-union" or "anti-worker" book: It simply seeks to improve our understanding of what unions do, making use of modern economics, especially developments in public choice and the economics of regulation.

Chapter 1 surveys "the enduring controversy over labor unions," paying particular attention to the role of ideas in the evolution of public policy toward unions. According to Reynolds, the government-sanctioned powers of unions exercised through work disruption, threats of disruption, and other kinds of pressure ultimately rest on some acceptance or tolerance by the general public. This is where intellectuals fit in: They have supplied arguments to make the coercive actions of unions appear reasonable. In particular, the intellectual argument for unions rests on two propositions: (1) individual employees are helpless in dealing with employers, and (2) unions are essential to give employees the ability to deal on an equal basis with an employer. After showing that neither of these views bears close scrutiny, Reynolds concludes that they are based more on "garbled sentimentality toward unions" than analysis.

Chapter 2 begins to present some of the much-needed analysis by discussing the economic nature of unionism. A positive view of unions is first presented which makes a very basic distinction. Namely, in a free society people ought to be able to associate freely with one another, to form "combinations of labor," as long as they do not interfere with the equal rights of others. Moreover, people ought to have the right to quit or avoid such associations as well. Thus, there is nothing inherently