Review

Reviewed Work(s): The Way the World Works: How Economies Fail--And Succeed by Jude Wanniski

Review by: Benjamin J. Cohen

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editorials for the *Journal*. What *is* surprising is that we are expected to take it all seriously. The book would be much less distressing if we were permitted to read it as satire rather than as scholarship. Then we might merely smile and wink, for example, when Wanniski assures us that the *Journal* is "without a political commitment to economic dogma" (xiii). We might grin when he argues that of all the world's economic problems in the postwar era, the *most* serious has been the personal income-tax rate (186). We might guffaw when he asserts that high taxes are "the primary cause by a long shot of the poverty of the world" (247). We might even be prepared to excuse other innumerable gaffes in the book—the gratuitous slurs (Harry Dexter White "was at least a communist sympathizer, if not a spy," 207); the factual errors (regarding *inter alia* the date of the Kennedy Round tariff reductions, 158; the meaning of the International Monetary Fund scarce-currency clause, 203; and the relative size of the American economy, 209); the caricatures of history ("For thousands of years the world has been moving toward more, not less, democracy," 303); the debatable *obiter dicta* ("Superior systems cannot be replaced by inferior systems," 26).

But Wanniski unfortunately leaves us no option. The book, he insists, *is* meant to be taken seriously. This is not parody but professional inquiry—in which case we must conclude that he is simply unaware of the pitfalls of his own research design. For all of his erudition, he does not appear to appreciate the dangers of the colorful historical generalization, the univariate theory of history. For all of his sophistication, he still insists on trying to reduce complex reality to trite oversimplification.

Nowhere is this superficiality more in evidence than in his attempts at interdisciplinary theorizing. By his own admission, Wanniski, when he began his career of editorial writing in 1972, was "ignorant of all economic dogma" (xiii). One can only conclude that his education in political economy since that time has been spotty at best. Much of his argument against taxes, for instance, is based on a supposed tension between income growth and income redistribution. A little more learning would have made him aware that this is a false dichotomy: in certain circumstances, redistributive taxation can release productive forces previously inhibited by a skewed income distribution. Likewise, much of his argument against government intervention is based on an apparent ignorance of public-goods or industrial-organization theory, as well as on an apparent unwillingness to admit any legitimate motive for government action other than the economist's traditional objective of product maximization. Readers of *Das Kapital* will be amused to learn that "The Marxian idea does not concern itself with economic growth, but with economic contraction"; readers of Keynes' *General Theory* will be amused to learn that his book was written "to systemize [socialism] into an economic model" (150, 154).[1] Wanniski's proposition that electorates

1 John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York, 1936).

invariably know their own best interests ignores the inevitable inefficiencies of complex decisionmaking on a mass scale. His proposition that electorates always seek to maximize capital ignores the necessary tradeoff between present and future consumption in investment decisions (i.e., it ignores the discounting principle, comparing the present value of alternative future income streams). Wanniski is evidently even unaware, in asserting that "the law of supply and demand [means] that supply always equals demand," of the elementary distinction between *ex ante* and *ex post* in analysis of market behavior (41).

Nor is his research technique any less superficial when it comes to applying his "theory" to historical examples, as, for instance, in his discussion of the Nixon New Economic Policy of August, 1971. The stock market, he reminds us, soared euphorically after announcement of the president's policy package, despite inclusion of certain taxes and other governmental interferences in private transactions. His observation: "We can only state . . . that consistent with the model presented here, the market reacted positively to the varied measures to lower tax rates . . . and that the other measures (controls, surtax, ending of gold convertibility) were extraneous and negative factors" (223). Nothing like a convenient twisting of the facts to fit one's own theory. Serious scholars can expect to learn little from this type of approach to historical problems.

Benjamin J. Cohen
The Fletcher School,
Tufts University

Fertility and Scarcity in America. By Peter H. Lindert (Princeton, Princeton University Press, 1978) 395 pp. $22.50

"Two inches of finely carved ivory" was the phrase that one reviewer used to describe Jane Austen's *Pride and Prejudice,* because its limited scope was accompanied by a masterful attention to detail. If one were to review Lindert's book in an equally pithy fashion, the phrase might read "two yards of roughly hewn wood," because Lindert eschews the careful, precision strokes of a penknife for the lusty whacks of an axe. In one slender volume he proposes to explain the American fertility pattern since the Civil War (ch. 5); clarify the theory of household decision-making as it applies to human fertility (chs. 3 and 4); describe the trends in American wealth and income inequality from colonial times to the present (ch. 7); relate trends in inequality to changes in the labor force, especially changes in fertility (chs. 6 and 7); and prescribe some remedies for inequality in developing as well as developed nations (chs. 1 and 2).

If these goals appear to merit considerable attention and more space than 250 pages of text can bestow, consider that Lindert originally