

BOOKS

Principles of Politics Applicable to All Governments

by Benjamin Constant

Liberty Fund • 2003 • 558 pages
• \$22 hardcover; \$12 paperback

Reviewed by Richard M. Ebeling

Nowhere does one find such clear and lucid expositions and defenses of human liberty as those found among the French classical liberals of the nineteenth century, a group that included Jean-Baptiste Say, Frédéric Bastiat, Charles Dunoyer, Charles Comte, Gustave de Molinari, Paul Leroy Beaulieu, Emile Faguet, and Yves Guyot, to name a few. Benjamin Constant (1767–1830) was one of the brightest stars in this constellation of thinkers.

The great tragedy is that up until recently few of Constant's works were available in English. During World War II his *The Spirit of Conquest and Usurpation* (1814) appeared in an abridged translation. His novel, *Adolphe*, has also been translated. But the few essays of his that appeared in English during his lifetime seem never to have been reprinted in the twentieth century.

Only in 1988 was a volume of his *Political Writings* published by Cambridge University Press; it contained a new and complete translation of *The Spirit of Conquest and Usurpation* and his superb 1819 lecture, "The Liberty of the Ancients Compared with that of the Moderns." That volume also included an abridged translation of Constant's 1815 treatise, *Principles of Politics Applicable to All Governments*.

Now Liberty Fund of Indianapolis has published a new and full translation of *Principles of Politics* that contains all of Constant's extended appendices in which he elaborates on the principles of individual freedom, civil liberties, economic liberalism, and the role of government.

Principles of Politics was written in the immediate aftermath of Napoleon's rule over France and much of Europe. It is a defense of all forms of freedom against despotism. Constant considered natural rights to be a superior foundation for liberty than Bentham's utilitarianism. "Right is a principle; utility is only a result," Constant said. "Say to a man: you have the right not to be put to death or arbitrarily plundered. You will give him quite another feeling of security and protection than you will by telling him: it is not useful for you to be put to death or arbitrarily plundered."

Yet, in fact, Constant's arguments for freedom and limitations on government are both rights-based and utilitarian, or consequentialist. He asks us to think not only of the inherent rightness of freedom, but also of its positive effects and the harm from its abridgment. It is not possible to summarize and do justice to all of his analysis. But some of his themes can at least be touched on.

He warned of the "proliferation of laws" that go far beyond the protection of life, liberty, and property. This proliferation generates disrespect, avoidance, and corruption, which undermines the legitimacy of and obedience to all law, including those meant to secure freedom. Similarly, Constant warned of laws passed to prevent potential crimes, which can lead to arbitrary arrest, imprisonment without due process of law, and brutal treatment simply because some bureaucratic enforcer might conjure up suspicions in his own mind.

This led Constant to point out the dangers from all government restrictions on freedom of speech, written expression, and religion. Censorship creates a society of hypocrites who utter what the government wants, while their minds harbor different thoughts and beliefs. Furthermore, the very ideas that the government wishes to repress become the focal point of underground fascination for those wanting to read the forbidden words. The government's banning of some religious faiths, while sponsoring or subsidizing others, results in a growing number of people revolting against all religious belief under the compulsion of having to give allegiance to a

theology not of their own choosing. Thus, it can throw all religion into disrepute—the opposite of what the proponents of a state-sponsored faith want to achieve.

What is required is establishment of an impartial rule of law. This means an independent judiciary, due process for all, and elimination of cruel and unusual punishments. Constant also emphasized the need for securing and protecting private property rights, which not only guarantee freedom, but also foster a peace of mind that enables a spirit of savings and investment, and supports a society of voluntary, mutual consent in all human associations.

Inconsistent, therefore, with protecting private property and freedom of individual decision-making are all privileges, protections, and subsidies that benefit some at the expense of others. Central to Constant's criticism of all government interventionism is his awareness that no regulator has the wisdom, ability, or disinterestedness to succeed at it. "How will the government judge, for each province, at a huge distance, and remote from others, circumstances which can change before knowledge of them get to it?" he asked. "How will it stop fraud by its agents? How will it guard itself against the danger of taking momentary blockage for a real dearth, or a local difficulty for a universal disaster? . . . The men most lively in recommending this versatile legislation do not know how to go about it when it comes to the means of carrying it out."

Constant also pointed out that such interventions in the market "create artificial crimes [that] encourage the committing of these crimes by the profit which they attach to the fraud which is successful in deceiving them." It also corrupts the whole political process and undermines the spirit of enterprise and the desire for freedom. "In a country where government hands out assistance and compensation, many hopes are awakened," Constant warned. "Until such time as they have been disappointed, men are bound to be unhappy with a system which replaces favoritism only by freedom. Freedom creates, so to speak, a negative good, although a gradual and general one. Favoritism brings

positive, immediate, personal advantages. Selfishness and short-term views will always be against freedom and for favoritism."

Constant was also fearful of war, and the rationales for it, as a threat to freedom. In the wake of revolutionary France's wars of "liberation" throughout Europe, he explained that such foreign interventionism undermines the very cause for which it is undertaken. "To give a people freedom in spite of itself is only to give it slavery. Conquered nations can contract neither free spirits nor habits. Every society must repossess for itself rights which have been invaded, if it is worthy of owning them. Masters cannot impose freedom. For nations that enjoy political freedom, conquests have furthermore, beyond anything else we might hypothesize, this most clearly insane feature, that if these nations stay faithful to their principles, their triumphs cannot help but lead to their depriving themselves of a portion of their rights in order to communicate them to the conquered."

Almost 200 years have passed since Benjamin Constant penned his *Principles of Politics Applicable to All Governments*. But its insights and arguments still ring true for our own time.

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Breaking Free: Public School Lessons and the Imperative of School Choice

by Sol Stern

Encounter Books • 2003 • 248 pages • \$25.95

Reviewed by George C. Leef

Liberals mugged by reality" is the (increasingly) common expression used to describe people like Sol Stern. As a young man, he was a Berkeley radical espousing the leftist cant about capitalist oppression and the need for solidarity among its opponents. As the father of two children in the New York public-school system, however, Stern got a hard lesson in the results of the schools' being turned over to

leftist ideologues and their teacher-union allies. Whatever Stern's other political views may be, he is now a vigorous proponent of school choice and no doubt ranks high on the list of enemies at the National Education Association.

While *Breaking Free* recounts the author's experiences in battling the stultifying effects of union domination and the concomitant "dumbing down" of the schools his sons attended, the book addresses a problem that is national in scope. The educational product offered by the government school cartel is of poor quality, and people need to have other choices.

The most valuable service Stern renders is to rip to shreds the "good public schools" mystique. He lives on Manhattan's elegant Upper West Side and enrolled his son Jonathan in P.S. (Public School) 87, the "hot" elementary school in his district. Stern assumed that P.S. 87 would live up to its reputation as a good school, but was soon disabused of that notion:

Change was evident when I stepped in P.S. 87's "child-centered" classrooms. My first shock was that there were no desks lined up in rows. From kindergarten through fifth grade, children sat in little clusters, either on the floor or at tables. The young teachers were often dressed in jeans and T-shirts. They spent very little time in front of the room offering instruction; instead, they wandered around the room, observing the children working on their assignments in small groups. Reading was taught through the "whole language" or "holistic" method rather than the traditional phonics approach. On my first visit to P.S. 87, one teacher told me that she was helping the children "construct" their own knowledge.

Stern had encountered the world of "progressive" education theory. Education theorists have managed to pull the wool over the eyes of parents and taxpayers, leading them to believe that this easy-going approach is a great improvement over old-fashioned "drill

and kill" teaching methods. Many Americans, like Stern before his eyes were opened, think that because their children attend schools that are clean and attractive, employ only state-certified teachers, and have above-average standard-test results, they must therefore be "good" schools. Stern's experience with elite New York schools showed him that a school can look excellent in all those respects, but still give students a feeble academic program that's more babysitting than learning.

An example: In third grade, Jonathan's teacher devoted the year in math to creating a Japanese garden. When Stern would ask him what they did in math class, Jonathan would reply, "We measured the garden." Asked about the appropriateness of spending so much time on that project rather than learning the multiplication tables, the teacher replied that the garden project gave students "real life" mathematical practice.

Besides painting a startling picture of the dysfunctionality of New York's "elite" schools, Stern also gives the reader an excursion through inner-city schools that work remarkably well despite having minuscule budgets and run-down facilities. He visited several Catholic schools in New York and discovered a world of discipline and educational progress vastly different from that of the far more costly government system.

Vital to the success of the Catholic schools is the freedom of principals to set budgetary priorities, hire teachers on the basis of teaching ability rather than paper credentials, and require that students and teachers follow the rules. Of course, there is one more ingredient in this recipe: the possibility of failure. Without any guarantee of enrollments and revenues, the Catholic schools have to serve the desires of the parents. When dealing with the public-school bureaucracy and unions, Stern was merely an annoyance who could be brushed aside with a haughty "we're the experts" attitude. Nongovernment schools can't afford to ignore and alienate their customers, so they don't.

The villains of *Breaking Free* are union officials who will say and do anything to protect their cushy deal, and even more so

the politicians who pose as “friends of education” while invariably siding with the interests of the education establishment. People like Senator Edward M. Kennedy come in for richly deserved scorn. “With support from Kennedy and others,” Stern writes, “the unions have built a Berlin Wall that protects the public education system from competition and prevents poor children from leaving bad schools.” Exactly.

Breaking Free is an incendiary book, the kind of exposé that should make people angry. □

George Leef is the book review editor of The Freeman.

Free Trade Under Fire

by Douglas A. Irwin

Princeton University Press • 2003 • 257 pages
• \$17.95 paperback

Reviewed by Phil Murray

According to Douglas Irwin, free trade is under fire because some groups believe that they do not participate in the accumulation of wealth that trade brings. Others oppose it because they believe that trade agreements subvert national sovereignty and threaten to harm workers and the environment. Irwin, professor of economics at Dartmouth and long-time advocate of free trade, intends with this book to show the benefits of free trade and evaluate the arguments against it.

A common argument against free trade is that imports destroy jobs. Irwin admits that “imports do indeed destroy jobs in certain industries.” But imports are necessary to finance exports, he argues. Irwin observes that “all of the dollars that U.S. consumers hand over to other countries in purchasing imports . . . eventually return to purchase either U.S. goods (exports) or U.S. assets (foreign investment).” Therefore, “the overall effect of trade on the number of jobs in an economy is best approximated at zero.”

When protectionists advocate import

restrictions, they disregard their hidden costs. One cost is the jobs lost in export industries and industries that buy imported inputs to make final goods. “According to one study,” reports Irwin, “import quotas in the Steel Revitalization Act . . . would protect 3,700 steel jobs but cause the loss of anywhere from 19,000 to 32,000 jobs in the steel-consuming sector.” Blocking imports to save jobs is also wrongheaded because it raises prices to consumers. Here Irwin cites a study concluding that consumers pay an extra \$140,000 yearly for each job protected by textile-import quotas.

Nor does Irwin have any patience with policies designed to “soften the blow” of import competition. The government provides income assistance, but the displaced workers who receive it merely lengthen their spell of unemployment. As for training programs, Irwin bluntly says that “there is little evidence that any government training program works well.”

Irwin also analyzes the legal attacks against free trade. One strategy is to accuse foreign exporters of “dumping” goods in U.S. markets. The Commerce Department finds dumping whenever the price of an import is “less than fair value.” Read Irwin’s description of how the department computes “fair value” and prepare for a case of nausea. It has nothing to do with whatever buyers and sellers voluntarily negotiate. The department almost always decides that the foreign exporter is dumping and levies “countervailing duties.”

Industries struggling against competition from imports also seek protection through the “escape clause,” which provides “a temporary exception to any negotiated tariff reduction.” “Temporary” protection tends to become permanent. For example, Irwin notes that “The steel industry has received nearly continuous protection for over thirty years and is still seeking limits on imports.” He concludes that some businessmen will resort to protection whenever it is to their advantage. The government should stop aiding them.

Irwin devotes a chapter to the World Trade Organization (WTO). The controver-

sial feature of the WTO is the “dispute settlement mechanism.” Although some conservatives suspect that the WTO is a form of world government, Irwin finds that fear to be unwarranted. He notes that “WTO panels merely determine whether disputed policies conflict with WTO rules and, if they do, recommend that members bring those policies into conformity.” It neither undermines national sovereignty nor interferes with trade.

Mostly, the WTO riles leftists, who charge that it undermines environmental regulation. In one case the WTO decided that standards for clean gas set by the Environmental Protection Agency (EPA) violated trade rules because they did not apply equally to domestic and foreign refineries. But the WTO cannot undermine EPA regulations. Irwin explains that, “The EPA could have resolved the case by raising the domestic standard, rather than lowering the standard applied to imports.”

The environmentalists’ gripe with the WTO and free trade is misdirected. “Environmental damage results from poor environmental policies, not poor trade policies,” Irwin maintains.

Although protectionism will never die, Irwin believes that the traditional opposition to free trade based on economic interests is waning. One reason is that corporate executives “have found that international diversification or joint ventures with foreign partners are a more profitable” alternative. The new and grave danger to free trade comes from nongovernmental organizations (NGOs) such as Ralph Nader’s Global Trade Watch. Their call for “human rights, corporate responsibility, and sustainable development” appears innocuous, but that agenda is an anti-capitalist Trojan horse. Sadly, many politicians are taken in by it.

With all the complaints about free trade, forthright defenders like Douglas Irwin are to be applauded. Everyone who buys *Free Trade Under Fire* will acquire a valuable resource on the economics, history, law, and current events of this critical subject. □

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Saving Capitalism from the Capitalists: Unleashing the Power of Financial Markets to Create Wealth and Spread Opportunity

by Raghuram G. Rajan and Luigi Zingales

Crown Business • 2003 • 314 pages • \$29.95

Reviewed by Gary M. Galles

In an era of misguided attacks on capitalism, *Saving Capitalism from the Capitalists* has about the most promising beginning imaginable: “Capitalism, or more precisely, the free market system, is the most effective way to organize production and distribution that human beings have found.” The authors—Raghuram Rajan (newly named as the International Monetary Fund’s chief economist) and Luigi Zingales (of the University of Chicago’s Graduate School of Business)—also recognize that capitalism is blamed for a host of ills, both by those who do not understand it and those with an agenda of deflecting blame or capturing the political apparatus for their own benefit.

Capitalism often serves as a scapegoat for economic distress because, the authors observe, “the forms of capitalism that are experienced in most countries are far from the ideal. They are a corrupted version of it in which vested interests prevent competition from playing its natural healthy role. Many of the accusations against capitalism . . . relate to the corrupted, uncompetitive systems that exist rather than a true free enterprise system.”

Rajan and Zingales argue that once a government has been largely restrained from violating property rights and the institutions of capitalism have begun to develop, the greatest threat to the system comes from those who already have positions of economic power (“the incumbents”). With no interest in enabling competition that would erode their dominant market positions, they use their concentrated interests to control the rules in their favor. Those are the capitalists capitalism needs saving from.

Dominant domestic producers use their clout to create protectionist policies to control competition, particularly from those outside the country, who have little if any domestic political power. This is why the authors emphasize free international trade as a constraint on inefficient government restrictions to protect domestic incumbents. This problem is particularly troublesome in recessions, when the incumbents channel the anger of the distressed to achieve their protectionist ends through legislation and regulation, which can then persist for many years after the immediate crisis is over. (This persistence argument is so reminiscent of Robert Higgs's *Crisis and Leviathan* that I cannot understand its absence from the book's bibliography.)

The authors emphasize that it is even more important to keep incumbents, particularly in an underdeveloped financial system, from freezing out improved institutions and innovations; the denial of access to capital is the most general barrier to entry and competition. Moreover, it is easier to undermine potential rivals' access to capital by thwarting the development of the institutions necessary for arm's-length markets than by promoting more visible and therefore harder-to-justify barriers to free trade.

Rajan and Zingales use many examples to illustrate the importance of the external competition they emphasize, particularly in finance. These range from the erosion of banking restrictions and the evolution of the market for corporate control in the United States to the role of the gold standard and the collapse of the Bretton Woods system in international trade and finance. They also include many illustrations from other countries and times, such as the undermining of the Japanese Bond Committee and the destruction of the Knights Templar as early bankers.

Unfortunately, however, when the authors turn from their useful contributions on the importance of free competition in product and financial markets to how they propose to protect capitalism from its vulnerability to political abuse, they seem to lose their bearings. They propose policies ranging from added government safety nets to heavier inheritance taxes and substituting property taxes for income taxes. Alas, they fail to see that such proposals themselves undermine the property rights that form the necessary basis for capitalism.

Further, their proposals are inconsistent with their analysis. For example, if incumbents, who control most of the existing property, dominate political competition in a country, how could it successfully convert from income to property taxes and impose steeper inheritance taxes, given that those changes would directly target those incumbents?

Saving Capitalism from the Capitalists is valuable for recognizing the importance of free trade, especially open competition in financial markets, not just for their direct benefits, but for the damper they put on governments' ability to protect incumbents against the potential entrants and innovators who most threaten their interests. It is also valuable for its wide range of international, as well as domestic, illustrations. Unfortunately, the book overstates the government role necessary for financial markets to develop, and its proposals to save capitalism are highly suspect.

But those flaws don't keep the book from standing head and shoulders above most recent "contributions" to the understanding and analysis of capitalism. □

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