

1981

Reason's Special Book Section

The Best Book On General Economics In Many a Year

KNOWLEDGE AND DECISIONS

By Thomas Sowell

*New York: Basic Books. 1980.
422 pp. \$18.50.*

REVIEWED BY
F. A. HAYEK

More than a year ago, a quick glance through this book had so fascinated me that I took it with me on my summer vacation with the intention of carefully studying it and writing a lengthy review. Misfortune would have it that some infection put me out of action for much longer than I felt I could spare from a piece of work of my own on which I was then and still am engaged. I thought it therefore necessary to put this book aside until I had completed my own.

Now that I have at last studied Professor Sowell's book, I know that that decision was wrong. I would have made more rapid progress with my own if I had postponed returning to it until I had fully digested his. I can now no better express my mature judgment than by the title I have given to this review article.

I trust the reader of this review will not be misled to believe that my enthusiasm

is due to the author's frank statement of how his interest had initially been guided to the problems to which his book is devoted: by work I published 35 (and, partly, nearly 45) years ago. I gladly acknowledge this, and it in no way diminishes my admiration for his original achievement.

I have myself continued to work on the same problems and am glad to find in his book conclusions that I endeavor to draw in my current work. This is what one hopes to find in the writing of an acute younger mind who continues what one has commenced. The rare surprise is that in a wholly original manner he has not only broadened the application of the ideas and effectively carried the approach into new fields that I never considered, but he also succeeds in translating abstract and theoretical argument into a highly concrete and realistic discussion of the central problems of contemporary economic policy.

Professor Sowell is one of the rare minds who, after they have ascended from the infinite variety of concrete facts to a general view accounting for the structure of the complex world, find their way back to the wealth of particulars from which they started and in which ordinary people, other than economic theorists, are alone interested. Although his exposition of economic theory is im-

peccable and contains many original contributions, the strength of the book, its impressiveness and liveliness, is due to his always having before his eyes the concrete phenomena. Simple and vivid illustrations make us aware of the practical implications of his theoretical insights.

Another great merit of the book is that the author has really and wholly freed himself of that animistic prejudice that still lurks in the thinking of many supposed social scientists who can see a social structure only as the creation of some intellect. Few writers in our field have so radically purged themselves of the search for design in grown structures; few have made central to their analysis the process whereby scattered information that nobody possesses as a whole is transmitted and utilized.

It is the profound philosophical insight that unobtrusively stands behind the very realistic discussion of problems familiar to all of us that gives the book its unique character. In recent years, a number of students have done a considerable amount of work on that process of communication of knowledge effected by the market. But most of this work is available only in studies done by and for specialists. Professor Sowell's is probably the first comprehensive attempt to apply it to all the major issues of economic organization, which is essential for understanding current affairs.

It does not unduly simplify but succeeds in being intelligible to the attentive reader. Nobody can make these things

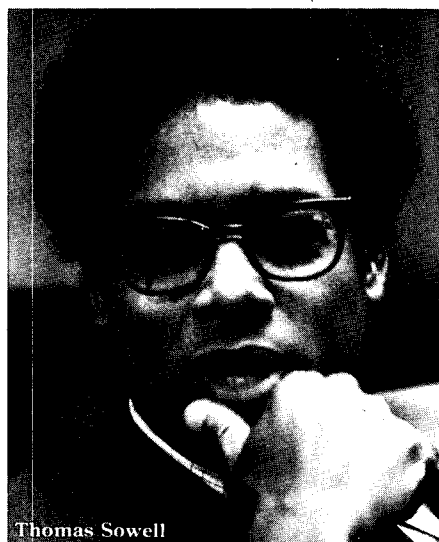
Reason's Special Book Section

quite easy, but the clarity and precision of Professor Sowell's exposition is exemplary. I so much approve and admire the argument of the book that I find myself concerned more with whether it explains those important insights as effectively as possible than with its originality and correctness, although it is rich in both of these, also. Professor Sowell is unusually careful and precise with his language. I may sometimes hesitate about the terminology that he chooses but that presumably is more familiar to a younger generation (*incremental, trade-off, authentication, fungibility, referral, incumbent, sequential*); yet these may well be better terms than those we had to use in the past. And in various other instances, where I at first wish that something were put more concisely, I usually find that I do not really know how that could be done.

I will not claim that it is an easy book to read for the laymen. Unfortunately, the self-generating order of economic activities is not easy to explain, and the task of any honest and competent book must be to show that what off-hand may seem the most plausible explanation—that somebody has arranged things thus in his own interests—is outright wrong. What this book offers is not much more than the minimum of understanding required to talk sense on the most acute issues of public policy, but very much more than is offered by most of the books that in recent times have been great popular successes in this field.

It is difficult not to reflect on how much good it would do to the world at large if a book of this quality could achieve the kind of popular success that a large number of very bad and influential books have achieved. It is an intoxicating dream to imagine how much more sense current politics could make if as many opinion makers were to study and absorb its teaching as have been guided by the bestsellers of the John Kenneth Galbraiths or Robert L. Heilbroners, Gunnar Myrdals or Jan Tinbergens, not to speak of the surviving Marxists and Keynesians.

What I mean by the heading I have given to this review is that if I should now be asked by persons capable of exact thinking but ignorant of technical economics (and there must be hundreds of thousands of them who have great influence on policy) what single modern work would give them the best introduction to the present knowledge needed to judge the wisdom or folly of current policies, I would without hesitation refer them to Professor Sowell's book. Though to derive full gain from it, it needs to be studied carefully and consecutively, it contains so many gems that I could mention any number of passages



in the book that I wish were read and digested by every person who utters an opinion on public policy. To anybody who would wish first to sample the book, I would recommend, for example, pages 45-46, 67-72, 232-37, 250-52, 318-19, 328-31, and 353-55. Even if a prospective reader at first feels that he has not time enough to work through close to 400 pages, from reading these passages I believe he will wish to master the rest. And I trust that precisely those with great public responsibility, such, especially, as judges of the Supreme Court, will recognize it a duty to digest it.

I have perhaps done an injustice to the work by calling it in the heading a book on economics. It is of course much more, and the title the author has chosen for it is very appropriate, though I doubt whether most potential readers will understand its implications. It deals with those parts of economics that every social philosopher ought to understand but, I am afraid, even many economic specialists do not. It confirms to a high degree what I have said many years ago, offending many of my professional col-

leagues: that an economist who is only an economist cannot even be a good economist.

While an understanding of the market order is a necessary condition for the understanding of our civilization, one has to possess much knowledge of other aspects of civilization in order to comprehend what the market does. In this sense, the book might with justice be described as an important philosophical work, and I would regret nothing more than if my remarks about it should deter any of those who have a dislike of technical economics.

It is also a very courageous book. A generation ago it would have offended current prejudices of the dominant intelligentsia so much as to be buried by silence. There is, for example, his discussion of "affirmative action," which I am prevented from calling a masterpiece only by my awareness that I know little about the particular facts. I challenge all those who in the fashionable scandalous manner might endeavor to refute its intellectual argument, which they will dislike, by imputing to its author, a *la* Marxism and "sociology of knowledge," any selfish motives.

Of course, the many topics covered in this book deserve detailed discussion, but this must be reserved for the reviews in technical journals and cannot be attempted in a general report for the non-specialist reader. I have not hesitated to express my enthusiasm frankly about the overall achievement of the author, but since I have been led to use praising language that I have never used before in such a connection, I ought perhaps to add that I scarcely know the author in person. An accidental meeting at a luncheon at a faculty club with a deceptively youngish-looking scholar about whose distinguished earlier work, to my shame, I knew nothing, is all I connected with his name before this volume came into my hands.

I now hope I have not done more harm than good by expressing my considered view about it so frankly. But I trust the time is past when it was possible, as happened 32 years ago at a meeting of the American Economic Association, for an unknown young author whom I congratulated on the achievement of a book of his I had just read to afterwards be teased by his friends for having been seen receiving the kiss of death. But at that time the author of *The Road to Serfdom* could not expect to receive mercy from young American intellectuals. May I now be forgiven for being delighted to

have lived to see the seed I had been planting at that time now sprouting luxuriously?

F. A. Hayek, who was awarded the Nobel prize

in economics in 1974, is the author of numerous books ranging from *The Road to Serfdom* (1944) to *Law, Legislation and Liberty* (3 vols., 1973, 1976, 1979).

Missing Link in the Resource Equation

THE ULTIMATE RESOURCE

By Julian L. Simon

Princeton, N.J.: Princeton University Press. 1981. 415 pp. \$14.50.

REVIEWED BY
J. PETER VAJK

The 1970s have been a difficult decade. In the United States, we suffered from the demoralizing aftermath of the Vietnam war and of urban riots, only to be hit by Watergate and the OPEC petroleum embargo of 1973-74. We waited in queues for hours for gasoline, which suddenly doubled in price. Soon thereafter, supermarkets rationed customers to two or three pounds of meat per visit, and fertilizer and soybean prices around the globe soared. At the end of the decade, Three Mile Island and the DC-10 crash at Chicago's O'Hare Airport shook popular confidence in high technology.

Throughout the decade, we were bombarded with a steady stream of doom-day books, such as *The Limits to Growth*, *The Population Bomb*, *Famine 1975*, *The End of Affluence*, and *Losing Ground: Environmental Stress and World Food Prospects*, while the media announced almost daily new discoveries about the carcinogenicity of some food substance we had been using for years. In 1980, a commission chartered by President Carter presented its *Global 2000 Report to the President*, reiterating most of the warnings of this gloomy literature.

Given this succession of bad news, most reasonable lay people, having little or no expertise, time, or resources to investigate these issues for themselves, would come to the conclusion that the future is rather bleak. We seem to be using up the Earth's resources at an ever faster and faster rate, inventing and scattering about more and more pollutants or toxic materials, multiplying faster than rabbits (especially in the less developed

countries—LDCs), all the while proliferating more and more potent weapons of mass destruction. Amid all the rhetoric about scarcities of petroleum, food, agricultural land, strategic metals, sites for waste disposal, potable water, or money to carry out socially desirable programs at home and abroad, it seems the commodity we most lack is hope.

Julian L. Simon's new book, *The Ultimate Resource*, provides a refreshing and well-documented refutation of the gloom-and-doom school. Simon is a professor of economics at the University of Illinois, and the bulk of his book is based on economic evidence and arguments, with a minimum of technical jargon, so the book is readily accessible to the intelligent lay person. This is a book for people who are interested in shaping the future to read, to refer to repeatedly, and to give to friends who have been swayed by the abundance of bad news in the media.

Most of the book's conclusions are sharply at odds with currently accepted conventional wisdom, which is largely based on certain ideological positions totally unsupported by real-world data. Just a few of these conclusions will serve to indicate the thrust of the good news:

- "Food. Contrary to popular impression, the per capita food situation has been improving for the three decades since World War II, the only decades for which we have acceptable data. We also know that famine has progressively diminished for at least the past century."

- "Land. Agricultural land is not a fixed resource. . . . Rather, the amount of agricultural land has been, and still is, increasing substantially, and it is likely to continue to increase where needed. Paradoxically, in the countries that are best supplied with food, such as the U.S., the quantity of land under cultivation has been decreasing because it is more economical to raise larger yields on

less land than to increase the total amount of farmland."

- "Natural resources. Hold your hat—our supplies of natural resources are not finite in any economic sense. . . . [If] the past is any guide, natural resources will progressively become less scarce, and less costly, and will constitute a smaller proportion of our expenses in future years. And population growth is likely to have a long-run beneficial impact on the natural resource situation."

- "Energy. Grab your hat again—the long-run future of our energy supply is at least as bright as that of other natural resources, though political maneuvering can temporarily boost prices from time to time. Finiteness is no problem here either. And the long-run impact of additional people is likely to speed the development of a cheap energy supply that is almost inexhaustible."

- "Pollution. . . . population growth is not the villain in the creation and reduction of pollution. . . . the key trend is that life expectancy, which is the best overall index of the pollution level, has improved markedly as the world's population has grown."

This is good news indeed, and there is more.

But what is the justification for claims so outrageously at odds with the prevailing common wisdom? History provides some clues. Our present standard of living (in terms of life expectancy, material affluence, and political freedom) is the direct result of the Industrial Revolution, which would not have been possible but for the "population explosion" in Europe in the 18th and 19th centuries. More people, in the long run, provide the increased demand that leads to the invention of new technologies that not only meet the demand but satisfy it at lower cost than was previously possible. More people, moreover, provide the additional labor force to permit more efficient division of labor, providing new economies of scale. Had population growth 200 years ago been slower, we would all be poorer today.

The conventional wisdom, on the other hand, is based on a short-term view of the problem. An additional child (especially in the more-developed countries—MDCs—such as the United States) places large new demands on the socioeconomic system until the child joins the productive labor force 20-odd years later. Other things being equal, the same "pie" of resources must be divided more ways, and everyone's standard of living decreases.

But each additional child (again, es-