

\$200 billion annually and the removal of five hundred million people from poverty (p. 182). The cultural impact could be even more pronounced. In Coyne's words, "cross-cultural trade has the dual effect of allowing cultures to simultaneously maintain and develop certain aspects of their unique identities while partially merging with other cultures and becoming similar in other aspects" (p.183).

Coyne is quick to point out that he is "not claiming that markets are a panacea" (p. 193). Given the failures of other alternatives, however, Coyne makes a strong argument that a policy of principled nonintervention and free trade should be given a hearing. What better way, Coyne asks (p. 194), to preserve the unique identity of Anglo-American liberal democracy "than to return to the position of America's forefathers—a position of nonintervention and free trade?"

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**Capitalism at Work: Business, Government, and Energy;  
Book 1 of Political Capitalism (A Trilogy)**

Robert L. Bradley Jr.

Salem, Mass.: M & M Scrivener Press, 2009, 485 pp.

Robert L. Bradley Jr., for many years had to balance loyalty to his employer, Enron, with his belief in Austrian economics. With the collapse of Enron came the opportunity to resolve the conflict in favor of Austrian economics. Bradley chose to undertake the slow development that would produce a definitive study rather than an instant bestseller. He ultimately decided to produce a three-volume treatment. The first of these, the book under review here, deals with two overriding conceptual issues relevant to the Enron collapse and their implications to Enron and earlier debacles. The first is what is the essence of free-market economics and whether the Enron experience undermines the case for free markets. The other is the invalidity of resource pessimism. Later volumes will deal with similar problems such as the Insull holding-company collapse in the Great Depression and then a concluding volume on Enron itself.

The essence of free-market economics is a classic issue in which the defenders must deal with the standard attack by interventionists

that free-market economists unwisely uncritically worship business. This charge is an absurdity. Taken literally, it is an outlook, as Bradley recognizes, that is impossible to maintain. Given the differences within and among industries, support of a given business usually means opposition to a larger number of other businesses. Blindly to support the old-line steel companies is to undermine electric-furnace producers and industries that heavily use steel. (This, alas, is a real-life example.) Moreover, free-market economists are well aware that support for free markets is support only for businesses that are devoted to thriving by competing in free markets. It is further well recognized that at best business people are reluctant to make strong defenses of free markets and at worst act instead to secure political favors that shelter them from competing vigorously. To characterize this search for favor, Bradley prefers Gabriel Kolko's term "political capitalism" over the concept of rent seeking that he is aware dominates the economics literature.

Bradley divides into two parts his development of this argument. The first portion uses three examples of free-market advocates—Adam Smith, Samuel Smiles, and Ayn Rand—as sources of models of proper concepts of free markets. The first chapter of the second part reviews contributions of interest to Bradley by four key economists—Joseph Schumpeter, Frank Knight, Ludwig von Mises, and Ronald Coase; the second explains political capitalism and examines key contributors to understanding of the concept; the third examines the literature, mostly by historians, on the rise of intervention and political capitalism.

Among the three choices, Smiles is surely the most unfamiliar. He turns out to be a 19th century Scottish writer of self-help books and biographies. Bradley finds Smiles's writings a valuable statement of free-market principles, particularly the importance of good character; an apparent further stimulus is that Insull admired Smiles; the curious can access much of the writings by Googling Smiles. Smith needs little elaboration; Bradley adds in the views in *The Theory of Moral Sentiments* to show Smith's recognition that honest behavior is essential to persistent market success. As Bradley recognizes, the choice of Rand must be made with recognition of both her enormous popularity and her substantial shortcomings. (Bradley stresses the personal defects; an equally important defect is that her knowledge is much less than she tries to indicate.) I managed finally to read

*Capitalism: The Unknown Ideal*, which makes clear her recognition of both that what we want is vigorous efforts to succeed in the marketplace and that capitalists do not support capitalism and indeed often seek political favors. Bradley chose Rand (rather than say, Mises who would have been my choice) because interventionists often say her free-market views were views supposedly refuted by the Enron debacle.

While the review of the four key economists is straightforward but overly limited, the next two chapters are more complex. Chapter 4 begins with an explanation of political capitalism, turns to the anti-business outlook of Progressive-era historians, notes the failures of economists such as Paul Samuelson (a Schumpeter student) to accept the warning of Schumpeter that perfect competition is not a satisfactory model of a vibrant real economy, and the development from the 19th century of self-interest (rent-seeking) theories of government. An interesting item here is citation of Simon Newcomb's 1868 statement about why the concentrated rewards to a interest group outweigh the scattered losses of the victims of rent seeking.

Chapter 5 then deals with the practice of political capitalism and with the writings on it. He begins by noting the charges by Paul Krugman and Arthur Schlesinger Jr. that Enron proved the invalidity of a free-market viewpoint. Then the views of Schlesinger and others on the supposedly business-taming progressive politics are reviewed. The muckrakers are then examined. Next Bradley treats the revised view of business pioneering such as Allan Nevins's favorable biography of John D. Rockefeller and the business histories undertaken at the Harvard Business School. After brief mention of a 1955 survey of the literature on the role of government, Bradley gives an extensive discussion of Kolko. The rest of the chapter is mostly a review of first the rise of political capitalism and then its partial reversal with deregulation. In between, he examines how business coped with rising intervention. His first example is a book by the chairman of Humble Oil and Refining (for whom the eventual head of Enron, Kenneth Lay, was ghost writer). The section ends with William Niskanen's infamous firing from the Ford Motor Company because of his opposition to protectionism.

The energy scarcity section begins with a chapter ("Malthusianism") that treats Malthus, William Stanley Jevons and his son, and a 1909 U.S. report predicting energy problems. The next chapter presents

portraits of several key contributors to the resource scarcity debate—Erich Zimmerman, Harold Hotelling, Frederick Hayek, the Paley Commission, Resources for the Future, and M. A. Adelman. All but Hotelling were vigorous critics of resource pessimism. Hotelling, in contrast, presented analyses of the consequences of tightening of resource supplies. Many resource pessimists, notably the many economic theorists who jumped into the debate *after* resource economists had refined the analysis, use Hotelling's work to support their views, and Bradley faults Hotelling for this error. In contrast, I have long argued that the problem with Hotelling is that his analysis incompletely develops the theory and ignores the practical implications. Others including the present author, O. C. Herfindahl, and T. C. Koopmans have concluded that the model properly interpreted implies, as Koopmans put it, that there are no exhaustible resources.

Bradley then presents a rouges' gallery of resource pessimists: M. King Hubbert, E. F. Schumacher, Paul Ehrlich, John Holdren, the sponsors of Earth Day, the Club of Rome, John Kenneth Galbraith, Ezra Mishan, and Kenneth Boulding. It is notable that only Schumacher and the last three are economists. Hubbert was a geologist; Ehrlich is a biologist; Holdren, a physicist; the Club of Rome relied on economically illiterate systems analysts. (At the time, one of my best graduate students examined the model and determined that decay arose because anticipation of problems was not incorporated.)

The next chapter then reviews the debates of the 1970s. Bradley stresses pessimistic outlooks such as from the Ford Foundation-sponsored Energy Policy Project, Amory Lovins, the U.S. government, Resources for the Future, Stobaugh and Yergin, the media, the International Energy Agency, and industry. He ends with discussion of critics of resource pessimism starting with the extensive energy program of the American Enterprise Institute and turning to M. A. Adelman, Julian Simon, and Colin Robinson.

Bradley then treats later developments, mostly of the 1980s. A big chunk of the chapter is devoted to Julian Simon's attack on resource pessimism. Then he notes the recalcitrance of Resources for the Future, Daniel Yergin, and Lovins, and reports the attacks on Hotelling by Campbell Watkins and by Jeffrey Krautkraemer and the changes in outlook produced by the Reagan and Thatcher revolutions.

An epilogue deals with "Surreal Enron, Real Capitalism." This deals mainly with more unified applications of the insights in the prior chap-

ters to the Enron case; those chapters are peppered with observations on the relationships to Enron. The key aspects of the epilogue are reiterating that Enron engaged in political capitalism, the dangers of extending principles of business ethics from honesty to undertaking “social responsibility,” the undesirability of the push to curb greenhouse gas emissions, and the existence of better visions of business behavior.

Bradley provides four appendices. The first grapples with “The Ayn Rand Problem.” Bradley chooses to stress Rand’s unhappy love affair with Nathaniel Branden, a married close associate, and what it indicated about Rand’s emotional stability. However, what seemed more critical was her dictatorial approach to argument. Whittaker Chambers’s panning of *Atlas Shrugged*, cited by Bradley and available on the Internet, provides many penetrating discussions of the book as literature and ideological tract including note of Rand’s neglect of how affluence is used, a problem well understood by Mises and George Stigler.

The next appendix briefly distinguishes between interventionism and full-fledged central planning. Kolko is then further examined. Finally, Bradley examines the lessened role of Resources for the Future in opposing resource pessimism. (This includes a long quotation of my effort to explain the change to Bradley.)

Bradley thus has attempted two very different tasks. The treatment of political capitalism treats an extensively examined debate. This leaves much to cover, the danger of repetition of the prior works, and exposure to disagreement about what should have been stressed. For example, as noted, I would like more Mises, Schumpeter, Coase, and Stigler and less Ayn Rand. I agree with Bradley’s attack on making a mathematical perfect-competition equilibrium theory a model to which reality should correspond. However, I have found the theory indispensable to honing the analytic skills needed correctly to analyze practical issues.

Despite such inevitable disagreement with details, I find Bradley’s effort a well-done statement of the libertarian view of free markets and intervention. Bradley nicely conveys the problem that too many business executives engage in rent seeking and that supporters of capitalism are well aware of that deficiency. The key problem with the effort is one implicit in his analysis. Politicians and many of those who observe them have extremely short memories. The disasters of the 1960s and 1970s are distant memories; Barack Obama ran on asser-

tions that ignored these lessons, and McCain was not much better. Economics seems the only discipline in which libertarian views have significant support. Grandmasters had problems swaying skeptics so it is unsurprising that Bradley did not score a knockout.

In dealing with resource pessimism, Bradley moves to a realm in which he is a well-established contributor and in which the prior literature is less extensive. He provides an excellent overview of hysteria over resource depletion. It appears at a particularly opportune time. Both U.S. main political parties are insanely devoted to an energy independence program that proposes to repeat the policy disasters of the 1970s. A wide range of organizations that should know better are supporting this folly.

He thus has succeeded in his effort to show that Enron was guided by faulty premises well-refuted in the economics literature. The financial crises of 2008 eclipse Enron as the quintessence of political capitalism, but Bradley's insights apply to the new circumstances even better than to the old.

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### **On the Contrary: Leading the Opposition in a Democratic South Africa**

Tony Leon

Johannesburg, South Africa: Jonathan Bull Publishers, 2008, 766 pp.

*On the Contrary* is a seamless combination of a memoir of an influential South African politician and a well-researched modern history of his country. The author was the leader of the liberal Democratic Alliance, the leader of the opposition in Parliament.

Having entered politics in the mid 1980s, Leon saw firsthand the repression that accompanied the final years of the minority rule in South Africa. He provides a vivid account of a collapsing state beset by financial problems, growing radicalization, and violence. He offers a disturbing account of the out-of-control security apparatus, which increasingly ignored the civilized values it claimed to defend.

With great compassion, he describes the suffering and humiliation of his black countrymen, and the efforts of a minority of liberal-minded whites to bring about political reform through peaceful