

middle-class folk is a bad cultural habit, why insist that the poor should have more of the very things that are allegedly alienating the rest of us?

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Paper Tiger

Paper Money.

By Adam Smith.

New York: Summit Books/Simon & Schuster. 1980. 317 pp. \$14.95.

Reviewed by Thomas W. Hazlett

Books on the economy are like opening lines in a singles' bar: the trick is to devise some crafty, innovative vehicle to steer you to the destination whereto the whole world knows you're headed. Writing about the Homeland's financial mess may lead to a different conclusion from your-place-or-mine, but it is no less certain: all roads lead to the shrinking dollar.

Adam Smith—not *the* Adam Smith, of course, but the *other* Adam Smith—is nothing if not ambitious. Make that *pretentious*. One need look no further than his stolen *nom de plume* to figure this out, yet the courageous "Smith" throws in an "acknowledgments" section that surpasses even this and firmly establishes the author as the biggest name-dropper since Jesus. (He thanks no less than one Columbia professor, two MIT profs, four from Harvard, and six Princeton economists, not to mention countless sheiks, corporate prexies, and high-ranking government officials, all for their personal attention to his book.)

We might forgive this penchant for middle-aged preppyism if the talented communicative abilities of Mr. Smith (a star of the "new journalism" of Tom Wolfe fame) were put to satisfying, and worthy, intellectual use. But, alas, this is 301 pages of a cat chasing its own tail. While the title, *Paper Money*, hints of an understanding of inflation, intelligent analysis quickly gives way to cute anecdotes, and right-thinking suggestions wither in favor of the fluffy metaphor. This is a sundae with lots of tasty cherries—but no fudge.

It is amusing to read of the genesis of OPEC and to learn it was so carefully molded in the image of one of the great American institutions, the Texas Railroad Commission. Yet Smith stretches our patience past the snapping point with allegations that Arab-speaking operatives are the ones who create US inflations and depressions, mushroom our



Simon Metz

"Adam Smith"

credits and debts, and stifle our government planners. Their main contribution, in point of fact, may be to allow folks like "Adam Smith" to write books about paper money without ever getting around to the central point: the Federal Reserve's legal monopoly on legal tender. If the Germans and Japanese blamed *their* troubles on the oil-slick sand-surfers of Saudi, why they'd be in such bad shape as... as... as we are.

Smith also employs his skills of good-essay in pursuit of the ever-fashionable joke-on-the-economist. This is a popular ploy of writers on the economy, one of the primary reasons being that easy things get done often. It can also be very funny, of course, unless one happens to be one of the hapless econometric "computer jockeys" Smith pokes at. Yet, when a pundit knows not of which he pokes, the scene comes off much as would the view of a blind matador punching at his bull. Smith wisely chooses to engage in combat with nothing more threatening than professional economists.

If *Paper Money* serves up even a side order of The Truth, it takes some 294 pages of appetizers to arrive. Finally, we find this finely seasoned morsel concerning the development of inflation:

After World War II the United States could borrow money for forty years and pay the lender 2½ percent. Now it pays 13 percent to borrow for ten years. The time horizon of the lender parallels the foreshortening of goals. Lenders do not want to lend long-term; corporate managers do not think long-term, they think more in near-term three-year slices.

Building up capital and cutting back on debt is a tough and painful process. When it happens in the business cycle, the sufferers, whether business or farm or labor, complain and the government accommodates with more money. So the cycle of adding debt continues.

Inflation has done more for government than Madison Avenue could ever dream of doing for household appliances. It is the penultimate "buy now pay later" scheme and, at least until tax indexing, offered a generous rebate policy to the decisionmakers who exercised the option. What should worry us most, though, is the social frustration that explodes when rampant inflation erases all the game's ground rules. "The trouble with paper money," writes Smith, "is that it rewards the minority that can manipulate money and makes fools of the generation that has worked and saved."

Quite an insight; but this is just where our book ends. Perhaps the able-penned Adam Smith should spend less time in the Ivy League or Sharm el-sheik, and a little more time down at the Fed. No volume on inflation should wait until its last seven pages to reveal the culprit. The rest of us have already seen who dunnit.

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Inordinate Fear?

Kingdoms of the Blind.

By Harold W. Rood.

Durham, N.C.: Carolina Academic Press. 1980. 295 pp. \$13.95.

Reviewed by M. T. Owens

A great chasm separating libertarians from conservatives is the question of foreign policy and national defense. Conservatives perceive a threat from the Soviet Union; so, as much as they may wish to reduce the power and burden of government, this does not apply to the Department of Defense. Many libertarians, on the other hand, while recognizing the totalitarian nature of the USSR, maintain nonetheless that the United States is equally the aggressor in the postwar world. Indeed, many, influenced by "revisionist" history, have come to see the United States as the instigator of the Cold War. (Interestingly, while New Left and Marxist authors such as William Appleman Williams and Gabriel Kolko have been taken to heart by many libertarians, there is little if any notice of Robert Maddox's devastating critique of

the revisionists, *The New Left and the Origins of the Cold War.*)

Since the "State" is the source of most ills, the power of all States, including our own, must be reduced. Since "war is the health of the State," this reduction ought to begin with the defense establishment. These libertarians share with liberals the belief that war can be avoided by eschewing confrontation.

It is fashionable to assert that the

Soviet Union will fall of its own weight, primarily because the economic system is near collapse. Such claims are the reason for the timeliness of Harold Rood's disturbing *Kingdoms of the Blind*, for in it he shows the weakness of such fashionable arguments. Germany was said to be near collapse just before the invasion of Czechoslovakia and again before the Polish excursion. And economic weakness has not prevented the USSR

from engaging in the greatest peacetime military expansion in the history of the world.

Rood begins by recounting the "blindness" of the Western democracies to the post-World War I rearmament of Germany. The story he tells is not a new one, but we must be impressed with how the British government so vociferously opposed suggestions that the Germans had any aggressive intent. Such an attitude merely played into the hands of Hitler. Rood quotes a rather forthright statement by the Fuhrer:

The prevailing circumstances have obliged me to speak, for a decade or more, of almost nothing but peace. Only, in fact, by continuously declaring the German desire for peace and Germany's peaceful intention was I able, step by step, to secure freedom for the German people and to provide Germany with the armaments which have, time and time again, always been the essential precondition for any further move.

Less than a month before the German invasion of Czechoslovakia, Prime Minister Chamberlain could write to his sister:

I myself am going about with a lighter heart than I have for many a day. All the information I get seems to point in the direction of peace and I repeat once more I believe we have at last got on top of the dictators. Of course that doesn't mean I want to bully them as they have tried to bully us; on the contrary I think they have had good cause to ask for consideration of their grievances. . . .

Such naivete is still with us. An American president told us in 1977 that we were over our "inordinate fear of communism"; in 1979 that same president expressed dismay over the Soviet invasion of Afghanistan. How many times in recent years have Western commentators written optimistically of a liberalization of Soviet attitudes: Czechoslovakia, 1968; SALT II; Poland, 1980?

What should astound us the most about Rood's account of recent Soviet expansion is that Soviet statements and actions are regularly reported in newspapers, just as information about German aggressiveness was available to the citizens of the democracies in the 1930s. Yet newspaper editors consistently deny any aggressive intent on the part of the Soviets. Indeed, we are often confronted by newspaper wire reports of Soviet aggression, while on the editorial page of the same newspaper we are assured of the peaceful intent of the USSR.

Perhaps the most disturbing part of Rood's book is his account of US strategic ignorance. Our strategic situation

Book Hints

a selective mention of books received for review

WE ARE PLEASED TO NOTE the publication of new editions of some free-market classics. New York University Press has brought out a new translation, by James Dingwall and Bert F. Hoselitz and with an introduction by Friedrich A. Hayek, of Carl Menger's *Principles of Economics* (New York: 1981, 320 pp., \$20.00/\$7.00). The publication of this book in 1871 is said to have launched the Austrian school of economics. Available from the same publisher is a new edition, translated by George Reisman, of Ludwig von Mises's 1933 *Epistemological Problems of Economics* (1981, 231 pp., \$20.00/\$7.00).

A new edition of von Mises's 1934 *Theory of Money and Credit* comes to us from LibertyClassics (Indianapolis, 1981, 526 pp., \$11.00/\$5.00), with a specially written foreword by a student of Mises and an influential figure in his own right, Murray N. Rothbard. Another book dealing with money is by Henry Mark Holzer, a gold-money advocate (and, incidentally, one of the attorneys for Walter Polovchak, the Russian boy seeking to stay in America against his parents' wishes). In *Government's Money Monopoly* (New York: Books In Focus, 1981, 223 pp., \$19.95), Holzer recounts how and why the monetary system became a government monopoly.

On the private side of things, Robert Hessen of the Hoover Institution is the editor of an important collection of essays, *Does Big Business Rule America?* (Washington, D.C.: Ethics and Public Policy Center, 1981, 74 pp., \$3.00), rebutting the interventionist recommendations of Charles E. Lindblom's *Politics and Markets*. President Reagan's budget director, David Stockman, authored the last chapter, "How the Market Outwits the Planners."

A more literary work on the Big Business theme is engineer-writer Samuel C. Florman's *Blaming Technology: The Irrational Search for Scapegoats* (New York: St. Martin's Press, 1981, 198 pp., \$12.95). Many of the chapters first appeared as essays in *Harper's*, and the tenor of the book may be gleaned by one chapter heading, "Small Is Dubious."

A definitely unusual jump into philosophy, via science fiction, is *Thought Probes*, by Fred D. Miller, Jr., and Nicholas D. Smith (Englewood Cliffs, N.J.: Prentice-Hall, 1981, 358 pp., \$11.95). Miller and Smith pose eight philosophical questions—such as "Does God exist?" and "Can you know what is right or wrong?"—and then present for each a short science fiction story that makes the problem come alive. The stories are followed by analyses of the problems from a philosophical perspective, such as an excerpt from Robert Nozick's *Anarchy, State, and Utopia* in the social ethics chapter, and a set of probing questions from the editors.

Other new books, by REASON contributors: *The Romantic Love Question and Answer Book*, by Nathaniel Branden and E. Devers Branden (Los Angeles: J. P. Tarcher, 1981, 260 pp., \$11.95); *The Graves of Academe*, by Language columnist Richard N. Mitchell (Boston: Little, Brown, 1981, 229 pp., \$11.95), as well as a paperback edition of his *Less Than Words Can Say* (1981, 228 pp., \$5.95); *Is Public Education Necessary?* by Samuel L. Blumenfeld (Old Greenwich, Conn.: Devin-Adair, 1981, 257 pp., \$12.95); *Contract as Promise: A Theory of Contractual Obligation*, by Charles Fried (Cambridge, Mass., and London: Harvard University Press, 1981, 156 pp., \$14.00); *Enterprise Zones: Greenlining the Inner Cities*, by Stuart M. Butler (New York: Universe Books, 1981, 168 pp., \$12.95); and by Oscar Newman, the urban planner whose work inspired our article on the private streets of St. Louis (Aug.), a novel called *Unmasking a King* (New York: MacMillan, 1981, 297 pp., \$11.95).