

Economic Facts and Fallacies

Thomas Sowell. 2008. New York: Basic Books. ISBN: 978-0-465-00349-5, \$26.00.

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Thomas Sowell is one of the great economic communicators of the twentieth century, and his output in the early twenty-first century has laid a solid foundation for understanding and communicating economic principles for years to come. Professor Sowell's latest contribution is *Economic Facts and Fallacies*, which would serve as an excellent text for a book club or discussion group; in addition, it would serve as a powerful supplement to an introductory economics course. Sowell's contribution provides a systematic discussion of matters that are often addressed by people of faith, and he comes to the familiar conclusion that good intentions do not always create good outcomes. As is usual in Sowell's work, *Economic Facts and Fallacies* is an exercise in careful theoretical analysis firmly rooted in fact.

Professor Sowell begins by identifying the kinds of fallacies people indulge in and the "power" that makes those fallacies so alluring. The book is less an examination of economic theory and bad economic reasoning and more a discussion of economic reality versus economic fiction. In this sense, the book might be better titled *Economic Facts and Fictions* because what Sowell identifies are often errors in fact rather than errors in reasoning, but this is at best a minor quibble and a matter of individual preference. I did not write the book; Professor Sowell did, and he makes a very useful contribution.

Sowell identifies several particular fallacies common in debate over economic subjects: the zero-sum fallacy, the fallacy of composition, the chess-pieces fallacy, and the open-ended fallacy. The first is the fallacy of believing that wealth exists in a fixed amount and that one person's gain is necessarily another person's loss. The second is the fallacy of believing that if one party benefits from a policy, everyone benefits (consider, for example, the belief that if steel workers benefit from protectionism, the country is better off). The third is the failure to recognize that people respond to incentives, following Adam Smith's famous rebuke against those who believe that people can simply be rearranged like pieces on a chessboard without any process costs. The final fallacy speaks in categorical terms about concepts like "safety" and "health" without recognizing first that the relevant units of analysis are marginal and that those marginal units of

safety and health (for example) have to be traded off against other wants.

Sowell divides his book into individual chapters that address urban issues, gender issues, the academy, the earning and distribution of income, relations among races, and economic development in the Third World. In so doing, Sowell applies a sharp mind and a keen eye for data to policy issues that have received much (perhaps erroneous) attention in the national press.

Economic Facts and Fallacies provides a powerful antidote for social problems that are unfortunately treated as moral failures rather than as the outcomes generated by individual responses to the institutions and incentives in place. Spiritual leaders exhort their congregations to care more—to feed the hungry, clothe the naked, and so on—and injustices and inequalities are interpreted as the consequences of indifference on the part of those with the means to “make a difference.” A political program that is built on a foundation of stylized “facts” that are either incorrect *per se* or incorrectly interpreted can be ineffective at best, dangerous at worst. In each chapter, Sowell carefully and correctly interprets the facts in light of economic theory; in so doing, he exposes the “fallacies” of today’s policy debates.

Sowell’s first chapter on policy issues considers the urban experience. In contrast to so-called “smart growth” policies, Sowell shows that central planning in urban environments has tended to create inflated prices (through land use restrictions), housing shortages (through rent control policies), and increased traffic density (through refusal to build appropriate infrastructure). Sowell takes the “elites” to task on account of their disdain for “ticky tacky houses,” suggesting that “(t)hose whose sensitivities are affected by what they see out of airplane windows can of course close the shades. But some prefer instead to disrupt the lives of millions of people on the ground” (p. 54).

Much of the material covered by Sowell in his chapter on men and women will be familiar to readers of his earlier work. According to Sowell, women excelled in academia prior to anti-discrimination laws, and many of the trends people attribute to changing gender attitudes are, in Sowell’s view, better explained by changing patterns of marriage and fertility.

Chapter four, on academia, is very interesting from the standpoint of an academic who has yet to achieve tenure. Sowell excoriates the academic establishment for its apparent focus on pacifying and serving faculty members rather than students; in addition, Sowell notes that educational institutions’ non-profit status means that they are often able to enjoy subsidized inefficiency. Sowell notes—rightly, in my view—

that just because a particular institution has an excellent reputation as a research community, it is not necessarily the right place to go for an excellent college education.

I do not think Sowell offers a deep enough discussion of the role of the competitive marketplace, as restricted as it might be by government interference, in American higher education. In contrast to most of the world, the U.S. has a competitive mix of government-supported and private institutions, which provide a wide array of educational products. There are many aspects of the system that are broken, but by and large American higher education does work.

Sowell offers effective and entertaining chapters on income, race, and Third-World economic development. Sowell argues that we need to take great care in how we interpret statistics—in earlier work, he has made reference to what he calls “Aha!” statistics. It is a plea for intellectual clarity, because if we pursue an unthinking focus on specific numbers that are then misinterpreted, this will probably lead to undesirable policies. According to Sowell, focus on trends across income quintiles and deciles ignores many important facts. Examples include the fact that household income and per-capita income are not the same thing: changing household composition means that we might be misrepresenting changes in household composition as changes in meaningful inequality. Sowell’s chapter on income provides a broad but succinct treatment of income dynamics in the United States.

Regular readers of Sowell will also find his chapters on race and third-world development very familiar, but they provide a key corrective to conventional theories of racial differences and third-world poverty. Sowell has long criticized the view that black poverty is due to “the legacy of slavery,” arguing instead that blacks inherited a Southern white culture that was inimical to economic development. This is a provocative thesis, to be sure, but I am wary of accepting it completely in the absence of more refined statistical testing. In this particular chapter, he repeats many of his previous criticisms of the alleged link between slavery and under-development, noting, for example, that black families went to great lengths to reunite with one another in the years after emancipation. Sowell also discusses the familiar result that discrimination need not persist in a competitive marketplace as those who insist on indulging their tastes for discrimination will find themselves on the receiving end of a swift capitalist comeuppance courtesy of the invisible hand of the marketplace.

It is here that much work needs to be done. On the one hand, some analysts conclude that racism and discrimination exist in the unfettered

marketplace and go about searching for evidence to support their foreordained conclusion. On the other hand, there are alternative channels through which one can indulge a taste for discrimination, like politics. In his recent book (reviewed in this issue), Bryan Caplan (2007) identifies what he calls *anti-foreign bias*, which represents voters' distrust of foreigners. The fact remains that many people dislike others on the basis of skin color, and it is possible—I would say likely—that people are able to indulge racist preferences due to institutional changes that eliminate the penalty for doing so. At the same time, it is possible (and again, I would say likely) that institutional changes aimed at eliminating discrimination have had the unintended consequence of turning race and gender into sorting mechanisms. These remain open questions, however.

Sowell's chapter on Third World poverty makes use of recent contributions by Hernando De Soto, Muhammad Yunus, and others to discuss the institutional and cultural factors restricting economic development, but there is no discussion of the empirical literature on institutions and development—perhaps most notably the research agenda being pursued by Daron Acemoglu, Simon Johnson, and James Robinson. While Sowell is correct to criticize foreign aid, he could bolster his exposition of the issues explaining economic development with a more complete review of recent empirical literature.

Sowell's discussion of poverty in developing countries also brings into high relief the contributions that economists can make to discussions of global "justice," however people choose to define it. It is by now well-known that the trillions of dollars in aid that have been transferred to foreign governments have not produced economic growth and have instead perhaps propped up kleptocratic regimes. Economics serves the discussion by illuminating the boundaries of feasibility that constrain what we might find ethically desirable.

Sowell closes the book with a few "parting thoughts" that squarely place this book within the context of the rest of the Sowell canon. What Sowell criticizes is a fundamental part of what he earlier called *A Conflict of Visions* (1987): people tend to let their vision drive which facts are acceptable instead of allowing the facts to modify and revise those visions. In short, an economist's work is never done. Sowell's analytical approach can be summarized with two principles, and it is an approach that deserves to be replicated everywhere: learn the theory, and get the facts straight. Only then can one develop insight.

The lesson for spiritual leaders and Christian economists is clear. Uninformed advocacy is a poor (and dangerous) substitute for careful

understanding and critical analysis. The world is a complex place, and unreflective sloganeering rather than reflective discussion has the capacity to compound the miseries we so desperately wish to fix.

Sowell's short volume provides a tight guide to the facts and basic economic theories relevant to a number of important policy issues. On the one hand, it stands as a useful reference for scholars and teachers interested in these issues; on the other hand, it will be a valuable supplement to introductory economics courses around the world.

References

Caplan, B. (2007). *The myth of the rational voter: Why democracies choose bad policies*. Princeton: Princeton University Press.

Sowell, T. (1987). *A conflict of visions: Ideological origins of political struggles*. New York: W. Morrow. ■