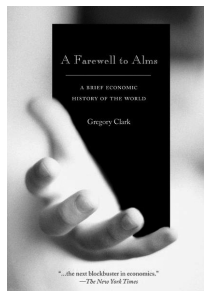


A Farewell to Alms: A Brief Economic History of the World

By Gregory Clark. 2007. Princeton University Press. Pp. 420, \$29.95 hardcover.



Developed countries have given \$2.3 trillion dollars in foreign aid to less developed countries over the past five decades. What have we gotten in return? No one is quite sure.

A new book says the recipients, especially countries in sub-Saharan Africa, actually are worse off because of aid. It is a must-read book for business economists involved in international affairs.

A Farewell to Alms, by Gregory Clark (an economic historian at the University of California, Davis) is creating quite a stir in economic development circles because (1) his general theory is both ingenious and easy to understand, (2) it is backed by a breathtaking array of evidence, and (3) it is very politically incorrect.

The central idea was first proposed by the 19th century demographer Thomas Malthus, who believed that the vast majority of human beings would always live at the subsistence level. The reason: the population would always adjust to the available food supply. Suppose there is a technological breakthrough—say, an agriculture technique that increases crop yield. In principle, more crops should raise the standard of living of a human society. But the long run effect is that more children will survive to adulthood and produce more offspring of their own. Thus, more food feeds more

mouths rather than providing more to eat for each person. Conversely, an agriculture blight that reduces agricultural output means that fewer children will survive to adulthood. In summary: expansion and contraction of available resources leads to expansion and contraction of the population of human societies—all living at a subsistence level of economic well-being.

Clark argues that Malthus' theory fits the facts very well in the period leading up to the Industrial Revolution. Not only does the Malthusian paradigm describe pre-industrial Europe, it also describes all of human history prior to about 1800. Indeed, Clark argues that people living in England in 1800 enjoyed a standard of living no higher than did people living in ancient Babylonia and Assyria, 3,600 years earlier.

Moreover, the “Malthusian trap” is arguably the natural state of humankind. It is natural not only because all of human kind was in this trap up until the last 200 years, but also because it is nature's trap. The Malthusian model of human society is the model that describes every other species in the animal kingdom. Species populations expand and contract whenever the resources they rely on (primarily food) expand and contract.

What is the relevance of this theory today? Clark argues that much of the less developed world is still in a Malthusian Trap—and that is why the gap is widening between rich and poor countries, with the difference in incomes now on the order of 50:1. Moreover, in a Malthusian world, things normally considered bad have an upside, and things normally considered good can turn out to be bad.

Ironically, in a Malthusian world anything that increases the death rate—war, disease, poor sanitation,

etc.—raises the standard of living of those who survive because it leaves fewer people to consume the remaining resources. By contrast, anything that reduces the death rate—peace, order, new medicines, improved public sanitation—lowers the standard of living because it produces more people competing for the same resources.

This is where the developed world comes in. As long as less developed countries are in a Malthusian Trap, our aid—especially public health aid—makes things worse, not better. For example, help from the West has arguably increased life expectancy in the less developed world from 40 years in 1950 to 65 in 2000. But in unnaturally expanding years of life, we unnaturally increased a population whose other resources remained basically unchanged.

As a result, contact with the West has actually lowered the standard of living of many Sub-Saharan African countries—below the subsistence level. The upshot: many people in Sub-Saharan Africa have a standard of living well below that of England in 1800. In fact, they may have the lowest standard of living in all of recorded history. As Clark explains:

Countries such as Malawi or Tanzania would be better off in material terms had they never had any contact with the industrialized world and instead continued in their preindustrial state.... These African societies have remained trapped in the Malthusian era, where technological advances merely produce more people and living standards are driven down to subsistence. But modern medicine has reduced the material minimum required for subsis-

tence to a level far below that of the Stone Age [As a result,] there walk the earth now both the richest people who ever lived and the poorest.

If everyone's ancestors lived in the Malthusian Trap for eons, why did the West experience an Industrial Revolution, while the rest of the world did not? In Clark's view, it mainly comes down to culture. In pre-industrial England, people who adopted such middle-class values as hard work, patience, honesty, curiosity, and learning became wealthy. As a result, more of their children survived to adulthood, and they in turn produced more children survivors of their own.

By contrast, in hunter-gatherer societies and early agricultural societies, Clark maintains that impulsiveness, violence, illiteracy, and laziness are common. All these characteristics were present in pre-industrial England as well. But a sort of Darwinian social competition took place, in which people who had characteristics most conducive to a modern economy earned more income, produced more offspring, and came to dominate the evolution of British culture.

The economic viewpoint that predominates at the World Bank and the International Monetary Fund is that what the less developed world needs most are the right institutions—private property, free markets, rule of law, etc. In fact, Charles Kenny, a World Bank economist, has an unpublished paper that takes issue with Clark. Yet Clark argues there have been times when less developed countries have had these institutions, and they were to no avail. India, for example, under 100 years of British rule had access to free international markets in capital and goods. With its low labor costs, India should have completely captured the cotton textile market worldwide. But it did not do so because of one missing ingredient. India did not

have the social work mores that England had. So worker productivity in India could not match that of the English, despite low wages and access to all the same technology.

Ultimately, economies cannot grow unless they adopt the right cultural institutions, according to Clark. But he has no proposal for making that happen. He acknowledges that when immigrants from less developed countries settle in the cultures of the developed world, they do quite well.

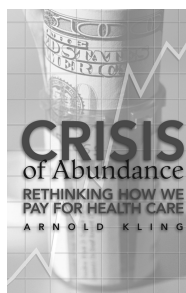
Although many in our own country view U.S. citizens who are at the bottom of the income ladder as victims of our economic system, Clark says they have it all wrong. The greatest beneficiaries of economic growth have been unskilled workers in the West. The greatest victims, ironically, are low-skilled people living on the other side of the world.

By implication, the best foreign policy toward the less developed world is benign neglect.

John C. Goodman
National Center for Policy Analysis

Crisis of Abundance: Rethinking How We Pay for Health Care

By Arnold Kling. 2006. The Cato Institute. Pp. 110, \$16.95, hardcover.



In *Crisis of Abundance*, Arnold Kling outlines the fundamental problems with American health care finance, how they developed, and how we might begin to fix them. However, it is not the stuff of documentary films or political rhetoric. It offers no easy, cheap, or painless answers. It is a

mature work whose policy proposals strive simultaneously to make the American health care system more efficient and more equitable toward the poor and the sick. One can read *Crisis of Abundance* as a work of pessimism or of optimism. Is the glass half-full or half-empty? You pick.

It is pessimistic in that Kling promises no easy answers. Pundits often pose our challenge as a simple one: look around the world, identify the best existing system, pluck it from the vine, and transplant it onto American soil. In this way of thinking, we need only decide whether the "best" system is that of the Canadians, the British, the Germans, the Swiss, the Dutch, the New Zealanders, or the fortunate folks in some other spot where our finger alights on the globe. Kling's somber news is that we haven't found the ideal system not for failure to look, but rather because it doesn't exist and never will.

The book is optimistic in its assertions that, with a better incentive structure than the one we have inherited, we can moderate the growth of health care expenditures and simultaneously improve the lot of the poorest and sickest in society. Kling is also optimistic in that he does not blame our problems on cartoonish malefactors. For Kling, the problem lies not in ourselves, but in the incentives we face. People are pretty much OK; and with some repairs on our incentives, our health care system can do far better. Kling suggests how to begin the repairs.

In *Crisis of Abundance*, the problem is that sensible people naturally wish to pursue three worthy but conflicting goals:

- We wish for health care to be affordable.
- We want individuals to have unfettered access to the care that they desire.
- We wish to insulate individuals

from the costs of health care.

In the realm of foreign policy, a quip has been cycling through the blogosphere for several years: “Democracy, immigration, multiculturalism ... pick any two.” Kling’s logic is parallel: “Affordability, access, insulation from financial burden ... pick any two.”

The ideal system for which we yearn is one in which we aren’t forced to choose among these three worthy goals. But, Kling explains, that’s impossible. If health care is affordable and individuals are insulated from financial burden, then access cannot be unfettered; someone is telling you “no,” or you’re waiting in line for someone to do so. If care is affordable and access to care is quick and unlimited, then it must be because patients bear the costs of their own treatments — they are not insulated from financial burden. And if access is unimpeded and patients are insulated from the financial burden of their care, then health care cannot be affordable.

The current American system has a high degree of access and insulation, but lacks affordability. Canada’s single-payer system effectively insulates patients from financial burdens; and, arguably, Canada’s health care may be less expensive than ours, but access is lacking. Canadians endure long wait times for care and face other access issues.

Kling suggests that we shift our focus toward affordability and access by altering our degree of insulation from health-induced financial risk. Under his proposal, care for the very poor would be paid entirely by governments; at present, 26 percent of their care is paid for out-of-pocket or by private insurance. Then, Kling divides the remaining population into four other groups: over 65 and very sick, over 65 and not very sick, under 65 and very sick, and under 65 and not very sick. For each of these groups,

out-of-pocket payments would increase, and government payments would decrease. Private insurance payments would increase for those who are very sick and decrease for those who are not.

Unfortunately, the specifics of Kling’s financing proposals are spread across six pages of oversized pie charts. This reviewer consolidated the data into a single bar chart, where the patterns emerge far more clearly. (For a copy of this consolidated chart, send a request to bob.graboyes@nfib.org).

Kling proposes to restructure the burden of payments in order to moderate the use of what he calls “premium medicine.” This consists of treatments having relatively high cost and relatively low health benefit. Premium medicine is characterized by large inputs of physical and human capital, high cultural expectations about what doctors can and should do, and heavy expenditures on degenerative diseases. Premium medicine thrives in an environment where few individuals pay a large percentage of their health care expenditures. Kling’s proposed changes imply that the poor are spending too little on health care, and the rest of us are spending too much. He hopes to slow the growth of health care expenditures and make the system more equitable and affordable.

Kling argues against national health insurance, but on novel grounds. He argues that there are at least three distinct and conflicting visions of what pathology a single-payer system is supposed to alleviate and how it should do its job. The visions are:

- Private insurance is the problem, so government insurance will lower costs.
- Health care providers overcharge, so the government should control prices.
- Patients ask for too much premium medicine, so the government

should restrict access to care.

Kling argues that these three conflicting narratives continually tug a single-payer system to and fro, to the detriment of patients.

In its suggestions, positive and negative, *Crisis of Abundance* makes an important contribution to the effort of remaking America’s health care system.

Robert F. Graboyes
National Federation of Independent Business

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