

The Politics of Poverty

BY LYNN SCARLETT

The New Wealth of Nations, by Guy Sorman
Stanford, Calif.: Hoover Institution Press, 216 pages, \$14.00 paper

A thousand Mexicans line up at the U.S. border near Tijuana. Darkness falls. They dart across the imaginary line that separates impoverished Mexico from prosperous San Diego. U.S. authorities, prepared for this mad dash, stop the invaders and usher them into the local border station. After some routine paperwork, these would-be immigrants are returned to Mexico. But before their departure, Dick Cisneros, a U.S. border patrol officer of Mexican heritage, offers a simple sendoff message: "It is because the politicians have fattened that the people are so poor!"

So recounts Guy Sorman, professor of economics at the Institute of Political Studies in Paris, in the prologue to *The New Wealth of Nations*. Cisneros's remark sums up Sorman's thesis as he attempts to understand why some nations remain poor while others, like Taiwan or South Korea, have become economic legends in the last few decades. The Third World, Sorman observes, "is not only mass poverty but...the priority of politics over economics."

Sorman adds substance to this assertion in what is part travelogue, part economic analysis. Not content to probe official documents and scholarly treatises, he embarked on an odyssey around the globe, visiting 18 countries where he interviewed rich and poor, policymakers and peasants. The result is a vivid, if somewhat kaleidoscopic, depiction of the politics of poverty.

Sorman finds little to praise. He criticizes the much-vaunted Chilean model, which weds an authoritarian political regime with an increasingly market-driven economy. Chile, he avers, was right to reject the infant-industry protectionist model made popular by Latin American economist Raoul Prebich in the '60s. But Chile's public sector remains large. "When all is said and done, the economic sway of the Pinochet government is as dominant

as that of Allende's; it has even increased in some industrial sectors as the government stepped in to take over private companies unable to stand up to its liberal policies and the [economic] crisis."



Sorman concludes that "the priority of politics over economics" has kept the Third World poor.

The tale is similar in the Ivory Coast. Although its quasi-liberal policies have left it better off than its socialist neighbors throughout sub-Saharan Africa, the country has large pockets of poverty amidst vast wealth accumulated by political bigwigs, most notably President Houphouet-Boigny himself. Sorman points out that agricultural products in the Ivory Coast, as elsewhere in Africa, are marketed through a state monopoly that fixes prices. What distinguishes the Ivory Coast from its neighbors is that its prices are fixed sufficiently high for farmers to earn a living. Furthermore, private property has not been abolished, and foreign trade and investment continued uninterrupted after the nation gained independence in the '60s.

Yet the Ivory Coast also suffers from the policies of state aggrandizement that are rampant in much of the Third World. The result is a growing economic crisis referred to by locals as "the situation."

Houphouet-Boigny ordered the construction of a grand capital in his native village, dubbed by Sorman the "folly of Yamoussoukrou," since millions of dollars were poured into creating a virtually uninhabited "ghost capital." Elsewhere in Africa, Sorman notes, we find "senselessly large factories that have been deserted, hospitals without doctors, dams without water, airlines with neither clients nor aircraft, and overequipped armies."

Sorman paints a rather bleak picture for most of the Third World, and his portrait is accurate. Economic development theory over the decades has blamed a series of villains for the Third World's plight. Often, the villain has been wealthy countries, whose riches were thought to flow only from exploitation of poor countries. Capitalism, too, has been vilified. Predictably, the remedies proposed for these "forces of impoverishment" have been heavy doses of state planning, nationalization of industry, protectionism, regulations against foreign investment, high taxation, and redistribution of private (but not public) wealth.

The result, as Sorman describes, has been a rapid growth of state power, enrichment of public officials, some industrialization and economic growth, but continued impoverishment for most Third World inhabitants. In short, the record of these experiments in command-and-control economics has been little better than parallel experiments in Eastern Europe, the Soviet Union, and China.

Had Sorman offered his critique a decade ago, it would have been an exception in the world of development literature. The past decade, however, has seen a blossoming of classical-liberal analysis of Third World development. An ever-widening chorus of scholars has joined the renowned British economist Peter Bauer to argue that free markets, private property, respect for individual initiative, and the rule of law (with limits on state power) offer the best prospects for achieving prosperity. Even among Third World technocrats and economists, privatization and liberalization now figure prominently in the pharmacopoeia of cures for underdevelopment.

Sorman does, however, add some in-

teresting twists to his analysis. Like Hernando de Soto in his path breaking book, *The Other Path*, Sorman directs his attention to the "little guy"—the poor farmer, the driver of an illegal taxi, the artisan in the underground economy. Sorman finds hope for the future in these individuals, if Third World governments would only strip away the myriad regulations and obstructions that deprive them of opportunities.

Sorman is on less firm ground when he recommends remedies than when he criticizes existing policies. In stressing technology as the antidote to hunger in the Third World, he seems to have forgotten his own earlier conclusions about government policy. For example, use of high-yield seeds, in which Sorman places great faith, has not been uniformly successful. Where it has failed to produce the expected results, government policies are often to blame. Thus, in parts of Sri Lanka, government control of irrigation deprives farmers of water applications at essential times, making the traditional seeds more appropriate.

Sorman finds in Taiwan, Singapore, and South Korea important lessons for the Third World, arguing that all successful economies require a strong state. The Pacific Rim countries have enjoyed rapid growth and the diffusion of its benefits to both rich and poor because, he claims, these states provided infrastructure investment, ample public services (including especially strong educational systems), and selective aid to industry in early phases of development.

Sorman also seems to argue that the state should guarantee remunerative prices for agricultural product in order to secure the well-being of a peasant bourgeoisie. He says these policies should be accompanied by protections of individual and property rights, predictable commercial laws, policies that encourage savings, and fiscal responsibility.

Sorman is certainly right to point to the need for a stable rule of law that protects property, contracts, and individual rights. But his praise for policies to support infant industry is problematic. Elsewhere, such as in India or Brazil, Sorman himself notes that infant-industry protection led to some industrial growth, but the

benefits from that growth did not percolate through the population. Sorman might argue this is because these states failed to implement the other features of his economic development program, such as extensive education systems, property and contract protection, and deregulation. It's at least equally plausible, however, that infant-industry protection in Pacific Rim countries actually played a minor, or even negative, role in their development.

Sorman's praise for South Korea's industrial policy is somewhat akin to the overemphasis so many industrial-policy advocates have placed on Japan's Ministry of International Trade and Industry. To be sure, MITI made some investments in research and development and assisted some Japanese industries. But the agency played a relatively small role in overall investment decisions in Japan. And MITI sometimes actually served as a barrier to innovation and growth by at first failing to approve import licenses for technol-

ogy—for example, transistors—that later proved highly profitable in Japan.

Despite his perhaps too-hasty praise for agricultural price supports and infant-industry assistance, Sorman for the most part offers a sound assessment of what ails the Third World. He concludes that the poverty of nations is not inevitable. Rather, it is "the consequence of bad policies based on a false idea. This false idea under various guises is the notion that political leaders and everything that legitimizes them—powerful state, single party, military, public sector enterprises—constitutes progress. Inversely, everything private—the individual, dis-sidence, the critical spirit—is always backward." These notions, not multinational corporations, capitalism, over-population, or inadequate resources, have kept the Third World poor.

Lynn Scarlett is vice president in charge of research at the Reason Foundation.

Lines of Duty

BY JACOB SULLUM

Rush, by Kim Wozencraft, New York: Random House, 260 pages, \$18.95

Suppose that cops had to murder people to solve homicides or break into homes to prevent burglaries. Anyone who believes in the rule of law would be appalled by such a state of affairs. Yet in the drug war, it's routine: Police officers must violate the very prohibitions they are enforcing *in order* to enforce them.

This point, so obvious that it's generally ignored, is vividly illustrated in *Rush*, Kim Wozencraft's absorbing novel based on her experiences as an undercover narcotics officer in Texas. Because she understands the realities of the street and is familiar with the nitty-gritty of law enforcement, her implicit critique of the drug war (she now favors legalization) is in many ways more powerful than the arid arguments of academics and policy analysts.

The lawbreaking that Wozencraft describes is distinct from the more-

dramatic corruption of cops who are tempted by the vast sums of money involved in the illegal drug trade. It's due instead to the need, in the absence of victims, for police officers to become the complainants by seeking out and purchasing drugs. To maintain credibility (and, in some cases, to save their lives), they have to take drugs as well. Suspicious dealers often insist, sometimes at gunpoint, that customers sample their wares at the time of sale.

Rush's protagonist, Kristen Cates, whose experiences closely parallel the author's, discovers this dirty little secret after joining the police department of a small Texas city. At 21, Kristen is keen to appear tough, but she is unsophisticated about drugs. During her first undercover operation, her partner and soon-to-be lover, Jim, straightens her out when she tries to simulate drug taking: "You'll get