NAKED ECONOMICS: UNDRESSING THE DISMAL SCIENCE. BY CHARLES WHEELAN. NEW YORK: W.W. NORTON, 2002.

For the usual readers of free market books, *Naked Economics* promises exciting reading. Charles Wheelan, an American correspondent of London's *Economist* and a lecturer at Northwestern University, promises to "undress the dismal science." Undressing in this sense means "stripping away all of the diagrams, equations, and jargon" and making it the science of real life. "Dismal" means that misunderstanding of the science that equates it with boredom, vagueness, and sheer dullness that Thomas Carlyle forever smeared economics with. In the Foreword, Burton Malkiel calls the book "truly unique," because Wheelan succeeds in giving us "a delightfully readable guide to economic literacy."

And partially, it's true. *Naked Economics* is a very important defense of the free-market philosophy. At this time, when the markets are, again, accused of performing all kinds of evil deeds, books like this are important. And when explaining all the benefits of the market economy, Wheelan is truly superb. His examples are clear, right on the mark. It is when Wheelan tries to be "objective" and finds fault with the market that he becomes, well, amateurish.

For example, while trying to explain externalities that the "market" produces, he simply states that "[t]here is no market solution in this case; the market is the problem." (The whole sentence is italicized in the book. Wheelan wants us to understand he is not naïve: the market is not a perfect economic system [p. 44].) The "market" pollutes, the "market" creates "social" cost that private actors don't bear, the "market" even forces people—I'm not making it up—not to clean up after their dogs in public parks. As any good amateur, Wheelan offers the obvious solution to externalities—the government.

But, externalities, and the explanations thereof, are what separates economics from, to borrow from Mises, pseudo-economic literature. Here we can see how much somebody understands the market as a social process. The truth is, every human action creates externalities, whatever the economic or political system. Every good economist understands that. Even Wheelan comes close! While his discussion about externalities comes in the beginning of the book, at the end, when he discusses the benefits of international trade, he has this to say: "In the short run, just about any economic activity generates waste. If we produce more, we will pollute more" (p. 204).

OK, so it is "we" who produce the externalities, not the "market." But if this is true, how can a government solve this problem? By forcing us to produce less? Or forcing us to pay higher prices in the name of paying for some alleged "social" cost?

THE QUARTERLY JOURNAL OF AUSTRIAN ECONOMICS VOL. 7, NO. 1 (SPRING 2004): 91–93

(Wheelan prefers the latter.) If externalities are (to quote Mises again), “a datum which the actors must take into account,” then a proper tort system can possibly establish responsibility for damages inflicted on third parties, but can do nothing to eliminate them.

Wheelan himself agrees that the government is the obstacle to a higher standard of living, and still, when in doubt he runs to the government for help. If the statement that “When government controls some element of the economy, scarce resources are allocated by autocrats or bureaucrats or politicians rather than by the market” (p. 67) is true, then the problem of externalities must be solved by the market participants if we want a better life.

Another example of pseudo-economic reasoning is the treatment of the Federal Reserve system. According to Wheelan, the “big picture” is that the Fed is here “to facilitate a sustainable pace of economic growth.” Left to itself, the market can never do that. But with the Board chaired with somebody so wonderful as Alan Greenspan (“aptly,” according to Wheelan, called Maestro), we don’t have to worry too much. Yes, “It’s a hard job,” yes, “Monetary policy is tricky business,” but a “skilled hand on America’s credit tap” beats the alternative of the market chaos that we get if money is a commodity not being able to be manipulated for macroeconomic purposes.

But if Greenspan knows how much money is needed in a huge economy like ours, then he must also know how many pairs of black shoes size 10 we need. If he knows what is the right interest rate for home buyers, car buyers, or furniture buyers, then he must also know how many houses, cars, and sets of furniture we need. And if he knows all that, we don’t need the free market in the first place. What we need is an economy planned by Alan Greenspan. But it is Wheelan himself who tells us that “The market economy is a powerful force for making our lives better” (p. 18).

These two examples are not mere quibbles, unfortunately. A lot of free-market economists don’t see their inherent contradictions. Either the market works or it does not. If one cannot plan the economy, for all the reasons they give, then the markets must be left alone. But if planning is possible, then the markets being inferior to planning must be abandoned entirely. These economists believe that the solution is—in a third way. The trouble is, as Ludwig von Mises indisputably showed, the third way is impossible. In the end, when the third way collapses, one has to choose: back to the free market or forward to undisguised socialism.

In both cases described above, it is exactly the government that destroys the workings of the market and then the antimarket ideologists accuse the market of failing. And herein lies the main problem with economists like Wheelan. Since in the real life the markets never exist without government interference, how do they decide whom to blame when something goes wrong?

The market is nothing but shorthand for a complex social process in which people exchange less desirable situations for more desirable situations. As such the market cannot fail. *Ex post*, a lot of people may find out that the exchange did not improve their situation, that they made a mistake. Disappointed, then they go and blame the “market.” This is the root of all antimarket feelings.

But, the biggest shortcoming of the book, at least for me, is something that most readers may not even notice. For quite some time, I’ve been wondering how some authors can spend hundreds of pages talking about free markets and never—NEVER—mention any of the numerous Austrian economists, past or present. This book is one such example. While Wheelan believes that "[t]here is nothing wrong" with "the central insight of John Maynard Keynes," i.e., that by using fiscal policies, "spending, tax cuts, or both," we can "fine-tune" the economy, while he quotes Paul Krugman as an advocate of a free market several times, one can look in vain for any quotation by Friedrich Hayek who won even a Nobel prize in 1974, or Ludwig von Mises, who refused to be accepted by mainstream economists because of his uncompromising beliefs in the logic of free markets, or Israel Kirzner, or any other less known members of the Austrian School who have published thousands of books and innumerable articles on the same topic. Was he afraid that he wouldn't be taken seriously if some Austrians had been mentioned? Or has he never read any of the books or articles published by the Austrians?

So, what final judgment does the book deserve? Its main message is indisputable: people who trade, whether locally or internationally, live better than those who don't. To be able to trade they have to be free in producing and free in consuming, endowed with certain rights and allowed certain liberties. As I was saying, with some exceptions, all this is good and well. Nevertheless, the book has left a bitter taste in my mouth: the mainstream economics cannot admit defeat. They cannot openly admit that the economics of a free market already exists, and has been defending the logic of the market for the last 100 years.

Wheelan ends with this message: "The sad irony of Econ 101 is that students too often suffer from dull, esoteric lectures while economics is all around them. Economics offers insight into wealth, poverty, gender relations, the environment, discrimination, politics—just to name a few of the things we've touched upon. How could that possibly not be interesting?" (p. 236). So if using math is "dull and esoteric," and if economics is about real life, would it be honest to mention those who said it first?

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