

# When choices matter

**Title:** *False Economy: A Surprising Economic History of the World*

**Author:** Alan Beattie

**Publisher:** Viking, Penguin

**Pages:** 312

**Price:** Rs399

This book is available at Landmark bookstores and at [www.landmarkonthenet.com](http://www.landmarkonthenet.com)

Wresting a senate seat held by the late Edward Kennedy for forty-seven years, Republican candidate Scott Brown shattered incumbent US president Barack Obama's dreams of a quick passage of his prestigious health care reform bill through the Senate. As the 41<sup>st</sup> Republican member of the US Senate, he eliminates the democratic filibuster-proof majority for which 60 votes are needed in a 100-member house. The scorecard now reads 59-41.

The democrats, desperately trying to explain away the electoral disaster, may do well to revisit the concept of a false economy to understand the descent of American consumerism into chaos and the current voter backlash that now threatens to engulf other democratic incumbents in the Senate.

When the current global financial crisis hit, sales of Karl Marx's iconic *Das Capital* reportedly hit an all-time high as the perceptive, and also the merely curious, sought enlightenment. A better choice might have been Alan Beattie's *False Economy: A Surprising Economic History of the World*.

Unlike Marx's academic tome, Mr Beattie's slim study is a speedy passage through various periods of history, detailing the smart or stupid choices nations made in their economic development — choices that either helped their economies blossom or left them hobbled for a long time to come.

## A tale of two nations

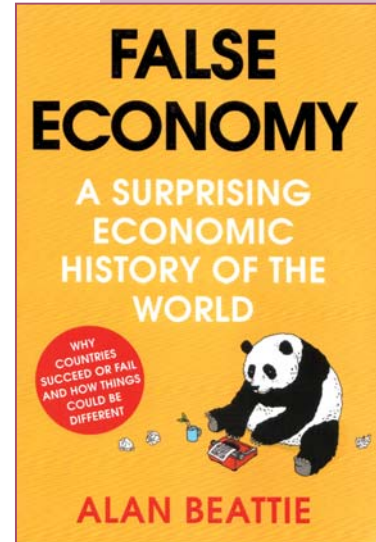
The very first chapter is a study in contrast between two nations — the United States and Argentina — which, a century ago, were similarly placed in terms of resources and economic potential.

"The millions of emigrant Italians and Irish fleeing poverty at home at the end of the 19<sup>th</sup> century were torn between two destinations: Buenos Aires or New York," writes Mr Beattie. The merits of either choice became clear soon enough.

Riddled with debt, Argentina became a chronic borrower and, subsequently, a defaulter. The United States, in contrast, moved on to dominate the world economy, trade and politics. In the century since Argentina began to lose out in the economic sweepstakes to the United States, the wheel may have turned a full circle. A debt-ridden US stares at economic bankruptcy and deploys emergency measures to revive a somnolent economy.

Though not likely, as experts take pains to assure us, it is possible that the US could end up sharing Argentina's fate as a defaulting nation.

"In fact, it still could," writes Mr Beattie. "Throughout the 1990s and 2000s the American economy as a whole ran an ever-larger trade deficit, financed by borrowing from abroad... the administration of George W Bush compounded the problem by perpetually pointing at the current account deficit as a source of strength, not of weakness. It was evidence, it said, of the willingness of the rest of the world to lend to America, not of the US's own reluctance to save."



As the US now plods its way out of the deepest financial crisis it has faced since the Great Depression, Mr Beattie's study of nations profiting from, or falling victim to, the economic choices they have made is of immediate relevance.

### Puzzles and theories

Mr Beattie's book is a collection of independent stories that present patterns of economic behaviour that, at first glance, appear idiosyncratic, but in actuality have a cold rationale underlying them. The stories look at theories that acquired popular sanction at various times and expose the assumptions underlying them.

Until recently, Mr Beattie points out, the values of Protestantism were touted as the primary reasons Protestant countries economically outperformed their Catholic neighbours — until the economies of Catholic Ireland, Portugal and Spain took off. In East Asia, Confucianism was at fault — only till such time as economies in this region lagged.

Islam, apparently, was not conducive to capitalistic economic growth — until Muslim Malaysia began to consistently outperform Christian Philippines.

Corruption may have doomed an African nation, such as Zaire, but for an aggressively dominant economy, such as South Korea's, it is institutionalised to an extent where it is perceived as just another tax.

The fact that Egypt imports half of its wheat, even though the Nile River Valley is one of the most fertile places on earth, and that Colombia has become the centre of cocaine trafficking in the world, even though West Africa is more advantageously placed, in terms of location and climate, to produce the narcotic for Europe, are some of the puzzles presented for our consideration.

Egypt, Mr Beattie points out, is not importing wheat so much as importing water. Since wheat requires a lot of water to grow, Egypt imports its wheat and saves the Nile's water for other uses. As for a trade like cocaine, illegal though it may be, it still needs basic infrastructure, such as roads, to thrive — something that West Africa is unable to provide. Colombia, we now realise, sweeps by default.

### Decisions that matter

Looking back in time, Mr Beattie underlines the fact that choices are for nations and individuals to make, and such choices, by and large, determine the outcome. Nothing is pre-ordained.

Mr Beattie's study could easily have become an academic exercise, and he certainly has the credentials. An economics and history graduate from Oxford and Cambridge universities, an ex-economist at the Bank of England and the current world trade editor of the *Financial Times*, Mr Beattie is ideally suited for any such exercise.

Mercifully, he opted for his journalist's persona and produced a narrative that is racy and hugely entertaining, even as it illuminates subject matter of immense significance.

For those who haven't read this concise text, they may be assured it reads better than *Das Capital*, and as for those who have, it's time to revisit it. ●

Rajiv Singh

## Excerpt

For India to escape its current pattern requires it to break habits acquired through decades of independence and, before that, centuries of imperialism. The socialism written into the constitution has to mean a genuine extension of services and opportunity to everyone, not a political system dominated by the elites from hundreds of different social groups squabbling for official privilege.

As previously noted, India's history has left it with some big advantages over China and Russia. For one, it is a democracy. Very few countries have managed to become genuinely rich to western European or North American levels without also becoming democratic. India's democracy is very far from perfect, but it can improve without a revolution or some similar enormous political upheaval. If China, by contrast, is to become a democracy, it will at some point have to go through a traumatic change. The state bureaucracy will have to stay intact and functioning while its intertwined relationship with a single political party is unpicked. Other east Asian countries, like South Korea, have managed this fairly well. But there is no guarantee that China will be able to adapt its historical legacy in the same way. Russia, for one, made an utter hash of it. And Russia's experiment with democracy since 1993 has left many Russians distinctly underwhelmed by this newfangled Western import, and willing to accept traditional restrictions on freedom in return for traditional stability.

Though the giant panda is indelibly associated with China, the lumbering creature is perhaps not the best symbol that the country could choose. The unconscious process of evolution has taken the panda on a path to oblivion, at least without continuing public subsidy, which it cannot retread and from which it cannot leap. No country finds itself in as intractable a position. But many nations have gone down routes that they would not have chosen had they foreseen where they would lead. And even if many in the country now recognize what needs to be done to change direction, it still takes large amounts of courage, luck and strength to find a better path.