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Sloboda izbora

(Free to Choose)

by **Miroslav Prokopijević**

Zavod za udžbenike i nastavna sredstva, Beograd, 2010.

The newest book by Miroslav Prokopijević titled "Free to Choose" represents a remarkable achievement on a couple of different accounts. It is a book written deliberately in a popular and jargon-free fashion, without usual "academic" pretence and with little literature cited. Clarity and conciseness with which Prokopijević explains even the most complex economic concepts are very refreshing because they demystify economics which is often thought of as some obscure, esoteric wisdom. The author shows instead that it is primarily a matter of logical thinking and the consistent application of general principles, rather than of the complicated modeling and empirical testing.

However, this is by no means an "easy" book to read and digest. If he is not careful and engaged enough, the reader could be deceived by the apparent easiness and smoothness of the writing style, and to get lost in the complex world of ideas that the book tries to convey. This is an ambitious book and requires a serious reading. Its main ambition and the basic argumentative thrust is conveyed in the very title "Free to Choose", which unmistakably points back to Milton Friedman's classic book with the same title from the 1980s. Prokopijević wants to offer a comprehensive free market philosophy suited for the local circumstances, to defend the classical liberal principles in a way which would appeal to the average Serbian reader, just as Friedman did for the American reader in the early 1980s.

However, Prokopijević follows a different stylistic path and different "script" than Friedman did in his famous book. Instead of composing the book in a set of tightly constructed and clearly delineated chapters and sub-chapters, Prokopijević organizes his writing into a series of loosely connected essays on different topics. What he actually does is to put forward different very popular economic ideas of the public, often typical economic fallacies of common wisdom, and then mercilessly dismantle them, turning the prevailing economic logic on its head. For example, the book, among other things, claims (and moreover, convincingly demonstrates) that insider trading is a socially useful institution (pp. 89-100) that speculators provide a vital service to the economy (pp. 67-73), that money should be privatized and central banks dismantled (pp. 43-48), that tax heavens are extremely good for the wealth creation (pp. 61-68) and that the so called "social responsibility of capital" represents a form of logical confusion (pp. 100-105); that "competition laws" are actually used to thwart competition and help the less efficient firms (pp. 23-29), that the notion of an economy "based on knowledge" is also a matter of logical confusion (pp. 125-131). And on it goes, until the modern politically correct reader sets the book on fire,

and asks for imprisonment of the author for the crime of hate speech against humanity and social justice.

Of course, such a book could hardly be expected to get much praise from the mainstream economic profession either, whose main task is often exactly to keep alive the same fallacies that the book does so much to expose. This is one of the most appealing features of the book – it represents a declaration of war to the mainstream economic science and its “experts”, even more than to the ignorance of the general public. As one of the reviewers Steve Pejovich has wittingly put it “Prokopijević writes so clearly that even the experts can understand it”. Moreover, many a reader, both among the professionals and the laymen, would be challenged in his preconceptions, sometimes confused or even shaken in his deepest beliefs by what this book has to say about the central problems of economy and society. It goes against every single conviction the educational system has taught people to believe in, and even against much of the conventional wisdom some economists still believe. The author shakes off the superficial layer of scientific jargon, all mystification and obfuscation routinely perpetrated on the public by the mainstream economics, and goes head on against the conventional wisdom, to analyze the most important problems of economic life with the sound logic and clear principles, whenever that might lead. And it leads in many cases to the conclusions that could sound extremely counter-intuitive not only to the public at large, but even more to the experts.

One of the chief virtues of this book is that it combines the sound economic reasoning with the vivid everyday life examples. Instead of boring tracts on the costs and benefits of economic regulation, Prokopijević explains what is the problem with requiring the small shops to have two separate rooms or to employ a technician with such and such specified training (pp. 11-14). Instead of perusing the newest “empirical evidence” from econometric studies showing that stringent antitrust policy application is a “net cost” for society, he simply explains why it does not make much sense logically and economically to break up the most successful companies if they grow over the certain size (pp. 23-29).

The specific quality of the book is that it explains some very important theoretical concepts which are not always sufficiently understood even within the economics profession itself, such as comparative advantage, “why there is no free lunch” (pp. 7-11) or the theorem that all free exchange is mutually beneficial (pp. 18-23). At first sight, this does not seem to be hugely important or controversial, but Prokopijević then goes on to apply those simple concepts to reality and derive from them some highly controversial implications. For example, from the theorem that all free exchange is beneficial for the parties involved (otherwise they would not have been engaging in the exchange in the first place) he concludes that the coordination of production and consumption via prices which allows to people to exchange the goods as they see fit, in the same time represents the best economic policy, and moreover that “enlarging the space for the free exchange is thus the best economic policy. And that is actually an economic policy without any policy whatsoever. Every policy consists of commands and orders and the exchange will be in so much more efficient as the price system is given a wider scope, and policy more narrow scope” (p. 22). Prokopijević specifically zeroes in on protectionism and “buy Serbian”

campaign as a sign of basic misunderstanding of the logic of economic exchange (pp. 21-22).

We can see a plenty of similar examples of almost Misesian quasi-deductive procedure in the book, which starts from some obvious and self-evident facts and statements, just to derive in a series of steps (and sometimes directly) very radical, and for many a conventional reader – quite counter-intuitive conclusions. There is no escape from Prokopijević's logical vivisection of the common economic fallacies; when an average writer would stop or back down a bit from the most radical implications of his ideas, to qualify or water down some radical concepts, Prokopijević doubles down on deriving the most radical consequences from them!

We shall now summarize some of these “controversial” arguments from the book that in our opinion contribute the most to the readers' economic education. First among them is so called “hostile takeover”. It designates the operation of buying the shares of an open corporation by an outside investor who hopes to replace the inefficient management and increase the share price by better corporate governance and cost savings. The takeover is “hostile” from the standpoint of the existing management. This is often considered a dangerous and undesirable thing, and many governments restrict by legislation the possibility of hostile takeover, especially when a takeover bid comes from a foreign company. However, as Prokopijević demonstrates (pp. 80-89) this is just a form of rent-seeking that the managerial class exercises in order to prevent competition. The various regulatory traps such as “poison pill”, “white knight”, “green envelope” and similar obstructive techniques sanctioned by the governments prevent a mutually beneficial trade between the current and prospective owners of the stocks and make the functioning of the market for corporate control more difficult. This results in the inferior performance of the companies, more managerial discretion and more rent-seeking.

The second very important piece of sophisticated economics education is the discussion of insider trading, which is one of the best chapters in the book. Prokopijević analyzes all possible objections to insider trading that you can find in the newspapers and refutes them: he emphasizes that the insider trading cannot be satisfactorily defined, that its prohibition prevents the flow of information about the state of the company's finances and investments. Insider trading helps to the business community to accumulate the best possible available knowledge about any company at the least possible cost. Regulations of insider trading impede this market process by increasing the cost of transferring and utilization of knowledge for entrepreneurial purposes. Again, the regulatory limitations are in Prokopijević's view just a new form of rent-seeking: “By involving the bureaucrats in this issue, some portion of trade is being politicized and the process of trade is exposed to new uncertainties. All that seems as a classic public choice lesson. Although the legal ban diminishes efficiency of the market, imposes arbitrariness and makes justice impossible, the laws banning insider trading are on the books in almost all countries of the world. Those laws increase the power of bureaucrats over the markets” (p. 78).

Finally, in the chapter 20 (pp. 100-105) Prokopijević deconstructs the popular theory of “social responsibility of capital”. According to him, this is a very confused idea which serves to promote the agendas of political and managerial elites at the

expense of the shareholders and consumers. First, from the economic point of view, restricting investment in order to support some non-economic causes decreases wealth creation, and this is especially characteristic of the underdeveloped world; Prokopijević points a glaring example – if a Western company for example does not use the child labour in India for reasons of “social responsibility” it will decrease the well-being of the Indians tremendously, because the child labour is widespread and indispensable in such a poor country. From a moral point of view, the managers are those who make decisions about diverting some of the company's funds for the non-profit causes; this is immoral because they devoid that way the shareholders of control over their own money. If a shareholders wants to support any noble cause he will be able to do so. The managerial use of the company's profit for the purposes of “social responsibility” is a form of legally sanctioned confiscation of wealth.

Although the books' common sense and brilliantly employed everyday logic represent its main assets, there is a flip side of this in the form of certain confusing theoretical eclecticism that exists in some chapters, and that often clouds the understanding of some very important problems. It seems that Prokopijević goes too far in equating the different free market schools of thought, or at least does not do enough to distinguish among them. When we read the chapters on monopoly, or on money, or on inflation and deflation, we often face the eclectic amalgamations of the claims by the Chicago, public choice and Austrian schools, presented as a unified philosophy, the claims that in many cases, however, are not reconcilable. For example, Prokopijević says that the good antitrust policy should move from the old quantitative approach towards the application of the concept of economic efficiency employed by the judges (pp. 23-29), which is a conventional Chicago school approach. However, in the same time he seems to be accepting the Austrian position that no antitrust policy could have ever been efficient, as well as the public choice idea that this policy is just another form of rent-seeking behaviour (*ibid.*). It is not immediately clear which one of these approaches Prokopijević favours the most and why, since all of them cannot so easily coexist.

Similarly, his discussion of monetary policy and inflation and deflation is plagued by the same kind of doctrinal ambiguity (pp. 48-61). On inflation and deflation the author strongly emphasizes the statement that both inflation and deflation are harmful, adopting the conventional monetarist zero inflation policy, while on the other hand shows some congeniality with the Austrian doctrines about the usefulness of deflation originating from the increased productivity (pp. 48-61). In this regards, the theory of recessions and business cycle is not clearly laid out, so the prescriptions for monetary policy, although generally emphasizing more pro-market approach are not quite clear. Or better still, the proposed radical privatization and denationalization of money is not consistent with the zero consumer price inflation. In order to avoid similar difficulties and ambiguities a more comprehensive theory of business cycle would be required: whether the economic fluctuations stem from the “random walk” of macroeconomic aggregates, or from the distortions of relative prices brought about by credit expansion and so on. And although it was not possible (and

perhaps even not desirable) to develop such a comprehensive theory in the book of this type, it was maybe possible to notify the problem and to offer some tentative solutions for it, or at least to clarify where the author stands on these issues.

Overall, the previous criticism notwithstanding, it is impossible to exaggerate the significance of this book for the economic education of the Serbian public. It is the first book in Serbia which I am aware of trying to convey a deep knowledge of the basic economic principles in the form accessible to an intelligent layman. In that regard, we should hope that this book would play a similar role in Serbian culture that the books such as Henry Hazlitt's "Economics in One Lesson" or Murray Rothbard's "What Government Has Done to Our Money", or, for that matter, the already mentioned Freedman's "Free to Choose", had played in American intellectual life.

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