and so Ford built homes with metal roofs lined with asbestos. Intended to reflect the heat, the houses retained it, like Cape Cod–style ovens. A priest there described them as "hotter than the gates of hell." Company managers, he added, "never really figured out what country they were in."

Four years into the arduous work at Fordlandia, only an accountant thought to ask if it was "fair to assume that seeds which grew up in a forest will do as well when planted in a totally denuded area under a hot tropical sun." Soon after, the plantation manager wrote Dearborn, "We are entering a gigantic proposition. . . . It would be well to have the opinion of the highest expert on rubber planting." The expert wasn't optimistic. After attempting to address the many problems, he recommended abandoning the settlement and transferring operations downriver, where the ground was flatter and the soil richer. With six years and $7 million invested, the company all but shuttered Fordlandia, shifting its interests to Belterra, the proposed site. In Portuguese the name means "beautiful land," but blight followed, as did swarms of caterpillars. In 1942, Belterra yielded just 750 tons of latex. "It wasn't high-quality rubber," Grandin writes, nor would it offset Ford's yearly need for 25,000 tons.

In 1945, shortly after being named company president, Henry Ford II turned the plantations over to the Brazilian government. Estimates placed their value at $8 million, considerably less than the company had invested. Ford parted with the land for $244,200, enough to cover the severance pay owed remaining workers. While his grandfather's vision never became real, the towns did look as Ford had imagined them, golf courses and all. But they were not towns for the people who lived there.

Grandin cautions against seeing Fordlandia as a parable about the folly of arrogance. Ford's dream, he says, was fueled not by hubris but by a utopian urge. The arrogance, Grandin writes, "is not that Henry Ford thought he could tame the Amazon but that he believed that the forces of capitalism, once released, could still be contained." In the jungle, far from government, industry could thrive, and "solve whatever social problems arose from progress's advance." Looked at another way, Fordlandia illustrates the determination of business to seek its own profit, unfettered and unbothered—until profits prove elusive. What's more, Ford's principles were situational, if not ad hoc. He was staunchly in favor of privatized gains but wouldn't refuse socialized risks. In this year of massive bailouts for banks and automotive manufacturers, the contradictions at the heart of Fordlandia are laid bare again.

Paul Maliszewski is the author of *Fakers: Hoaxers, Con Artists, Counterfeiters, and Other Great Pretenders*, published earlier this year, and *Prayer and Parable*, a forthcoming short story collection.

Oh, Behave!

Reviewed by Nick Schulz

ANIMAL SPIRITS: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism.

By George A. Akerlof and Robert J. Shiller. Princeton Univ. Press. 230 pp. $24.95

Behavioral economics is the hottest thing in the dismal science. A parade of books and magazine articles in the last few years has informed us of its implications for business, politics, and public policy. The free-market orthodoxy that took hold in the West with Ronald Reagan and Margaret Thatcher has been tried and found wanting, or so the thinking goes. It's time to bury homo economicus, invisible hands and all, in a shallow Scottish grave next to Adam Smith, and to restore government to its rightful role in managing economic affairs.

Arguments about the demerits of free enterprise and the merits of government intervention in the marketplace are hardly novel. So what new wrinkle explains the recent flood of writing on the subject? Modern science, of course.

Behavioral economics looks at the role that emotion, social dynamics, psychology, and other factors can play in individual decision-making. Modern social and laboratory science is illuminating with clinical clarity the ways in which individuals do not behave like rational economic actors. Humans have biases—for example, we tend to interpret new information in a manner that confirms our preconceived notions—that are difficult to overcome, and we are prone to enthusiasms, panics, and a host of emotions that cloud our judgment. Economists in the past didn't deny that, but they had no way of gauging it or factoring it into their models—and frequently had no desire to do so.

Animal Spirits, which attempts to leverage the insights of behavioral economics to reanimate the vision of John Maynard Keynes, is perfectly timed for the present moment.

George Akerlof and Robert Shiller, acclaimed economists at the University of California, Berkeley, and Yale University, respectively, have made their careers studying how and why individuals make all sorts of foolhardy economic decisions. Akerlof, who won the Nobel Prize in Economics in 2001, is famous for his 1970 paper "The Market for 'Lemons,'" which explained how markets such as those for used cars malfunction because buyers and sellers possess differing degrees of information about the product ("asymmetric information" in econo-speak). Shiller is best known for an earlier book, *Irrational Exuberance* (2000), on speculative asset bubbles, as well as for a widely followed housing price index that bears his name and that of fellow economist Karl Case.

In *Animal Spirits,* the authors leverage the insights of behavioral economics to reanimate the vision of John Maynard Keynes (1883–1946), the most influential economist of the 20th century. He introduced several key concepts, such as aggregate demand, that illuminate how economies function and that are still used today. Keynes famously argued in favor of deficit spending during economic slumps as a way to ensure full employment, advice that clashed with the common assumption that governments should maintain balanced budgets, and is still the subject of debate today.

To be sure, Keynes acknowledged that most economic activity is the result of rational economic calculations. But, the authors write, he also argued that "much economic activity is governed by *animal spirits.* People have noneconomic motives. And they are not always rational in the pursuit of their economic interests. In Keynes's view these animal spirits are the main cause for why the economy fluctuates as it does. They are also the main cause of involuntary unemployment."

The authors are taking some liberties here. Keynes referred to "animal spirits" when describing entrepreneurs who take great risk under conditions of extreme uncertainty. Animal spirits explain how entrepreneurs can innovate even when conventional economic analysis suggests that their gambles are unwise. This entrepreneurial impulse yields new businesses, technologies, and innovations that can put people out of a job (as, for example, when carriage makers started producing automobiles and buggy-whip manufacturers went out of business).

Animal spirits were never all that central to Keynes's theories, however. Indeed, entrepreneurs motivated by animal spirits were far more important to the economic vision of Keynes's contemporary Joseph Schumpeter, who gave us the idea of "creative destruction," and to subsequent theorists of economic growth. That said, Akerlof and Shiller's desire to resurrect and elevate "animal spirits" to improve our understanding of economic change is most welcome. But the implications of this idea sometimes appear to escape them.

The book is perfectly timed for the present moment. Keynes biographer Robert Skidelsky recently trumpeted the economist's return to favor in the pages of the British journal *Prospect.*

Economists across the spectrum, from the conservative Gregory Mankiw to the liberal Paul Krugman, have heralded Keynes's insights in making sense of the current economic mess. Last year in *The New York Times,* Mankiw wrote that Keynes's "diagnosis of recessions and depressions remains the foundation of modern macroeconomics," and Krugman observed that Keynes showed that "there were situations in which monetary policy could do no more," and as a result that fiscal measures of the kind Keynes advocated—deficit spending, for example—were relevant now.

As we embrace modern behavioral economics, Shiller and Akerlof believe we are prepared to see how correct Keynes was—he was a man of immense imaginative power and intuition and was far ahead of the scientific knowledge of the day. "With the advantage of over 70 years of research in the social sciences, we can develop the role of animal spirits in macroeconomics in a way that the early Keynesians could not," they write.

So what's the upshot? Government should act like a good parent, the proper role of which is to "set the limits so that the child does not overindulge her animal spirits" while allowing her the "independence to learn and to be creative." Two other highly regarded academics with a keen interest in behavioral economics, Cass Sunstein, a University of Chicago law professor now working for the Obama administration, and Richard Thaler, a professor of behavioral science and economics, also at the University of Chicago, take this view as well in *Nudge: Improving Decisions About Health, Wealth, and Happiness* (2008). In their estimation, government should act as a kind of nudger in chief. Do you want people to save more for their retirement? Make them opt out of their employer's 401(k) plan if they don't want to participate, rather than require all who want to establish one to opt in. The result: a vast increase in the number of people with 401(k)s. Shiller and Akerlof shy away from making many specific policy proposals. They point to the ways in which animal spirits shape phenomena such as unemployment and real estate markets, but leave it to economists and policymakers to devise new approaches.

All of this is a far cry from Ronald Reagan's assertion that "in this present crisis, government is not the solution to our problem; government is the problem." Indeed, the federal government now owns an insurance firm and has a significant stake in a number of banks, not to mention General Motors. President Barack Obama has called for a new era of oversight, remarking earlier this year that "we can no longer sustain 21st-century markets with 20th-century regulations."

Yet there is still a reason to be doubtful that the government limit-setting advocated by Shiller, Akerlof, and others will yield the beneficial outcomes they foresee. To understand why, it's helpful to look at the book's most striking anecdote, which concerns Andrew Cuomo. As the attorney general of New York, Cuomo has been busily attacking Wall Street bankers and insurers for their role in the financial crisis. Most of *Animal Spirits* was written before he decided to take on this new policing role.

In a chapter on real estate markets, the authors point out all the factors that helped to create the recent bubble. Given the past performance of real estate assets, "there is no *rational* reason to expect real estate to be a generally good investment." But people believe real estate values will always rise, and institutions such as the Department of Housing and Urban Development (HUD) and the government-sponsored enterprises Fannie Mae and Freddie Mac strongly shaped the housing market—and its illusions.

Allegations that minority groups were being left out of this nascent boom "led to an almost immediate, and uncritical, government reaction." As HUD secretary in the 1990s, the authors write, Cuomo "aggressively" increased the mandated lending by Fannie Mae and Freddie Mac "to underserved communities," even if that meant lowering credit standards and loosening the requirements for documentation from borrowers. As a political appointee, he was concerned not with future financial risks but with economic justice for minorities. So the government heedlessly helped further inflate the housing bubble.

And this is the rub. The authors seem oblivious to the limits their own analysis ascribes to the ability of government to alleviate problems. Behavioral economists are right that individuals in the marketplace don't always act rationally. But these same forces are at work in the minds and hearts of policymakers, regulators, and legislators—folks like Andrew Cuomo. They may be well meaning, but they are prey to a kind of animal spirits, too. They may be blinkered in a quest for justice or fairness, or their own political advancement. Biases may distort their perceptions of the relative risks and rewards of regulations and policies.

Another school of economics, called public choice theory, tries to unpack the implications of this dynamic for public policy. The thrust of this approach is that we should (at a minimum) harbor skepticism that wise bureaucrats can decide an individual's own best interest better than the individual can. The public choice school has produced its own eminent Nobelists, such as James M. Buchanan Jr. But in this book, Shiller and Akerlof do not wrestle seriously with it or with the challenge it poses to their hopes for a renaissance of Keynesian, technocratic policy.

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CONTEMPORARY AFFAIRS

The Wages of Corruption

Reviewed by G. Pascal Zachary

IT'S OUR TURN TO EAT:
The Story of a Kenyan Whistleblower.

By Michela Wrong. Harper. 354 pp. $25.99

Are nations poor because their governments are corrupt, or does a nation's poverty corrupt its officials? Traditional scholars of economic development hold that once a nation achieves a sufficient level of prosperity, corruption naturally withers as the incentives to cheat diminish. But in recent years, the continuing poverty in countries in Africa, Latin America, and the former Soviet bloc spurred revisions to that way of thinking that place much of the blame for continuing poverty on corruption. International donors, such as the World Bank, and activist groups, such as the corruption-monitoring organization Transparency International, promote the idea that if only governments in poor countries were honest, their citizens would be much wealthier.

The debate suffers from a paucity of data, especially case studies. British journalist Michela Wrong, a former Nairobi-based correspondent for *The Financial Times,* tries to close this gap by shining a light on the frontlines of official corruption—the theft of money by politicians and their cronies. Her book, *It's Our Turn to Eat,* neatly comports with the consensus view: the greater the corruption, the less the economic growth, and the worse the poverty. To illustrate, she tells the story of a single anti-corruption activist in Kenya, an East African country burdened by decades of government theft and malfeasance.

John Githongo, the son of a successful businessman, worked as a reporter before taking a job in Nairobi with Transparency International. Then, in 2002, members of the Kikuyu ethnic group to which he belongs took power in Kenya, promising reform. The new president, Mwai Kibaki, chose Githongo as his anti-corruption czar. Githongo met frequently with the president but grew disenchanted when he uncovered a massive scam, appar-