

THE FREEMAN

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JANUARY
1993
VOL. 43
NO. 1

Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

President: Hans F. Sennholz, Ph.D.

Editor: John W. Robbins, Ph.D.
Senior Editor: Beth A. Hoffman

Associate

Editors: John Chamberlain
Bettina Bien Greaves
Edmund A. Opitz
Paul L. Poirot, Ph.D.

Contributing

Editors: Clarence B. Carson, Ph.D.
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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Additional copies of single issues are \$2.00. For foreign delivery, a donation of \$35.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

Phone (914) 591-7230
FAX (914) 591-8910

PERSPECTIVE

The Most Unfair Taxes

In 1797, the U.S. Tariff Code consisted of a single sheet of paper. Today, there are more than 8,757 tariffs—plus lots of quotas, so-called voluntary import restraints and other import restrictions. These trade barriers cost consumers \$80 billion per year—about \$800 for every American family.

—GENE GROSSMAN AND

ALAN KRUEGER,

National Bureau of Economic Research

Money Is No Object

How many times have you been in a discussion over an emotional political issue and the statement is made, "How can you even consider the cost when lives are at stake"? This question usually is raised in disagreement over government social welfare programs, health care issues, or national defense.

If we analyze the question we will see that the person asking already has placed a monetary value on the issue. What he is saying is, "I do not wish to spend any more of my resources on the problem but money is no object if someone else can be forced to pay the bill."

—RICHARD L. SHETLER

Finding a Job

Ronald Reagan, in speaking to a college graduating class in 1984, said the following:

"I'm no longer young—you might have suspected that. The house we hope to build is one that is not for my generation but for yours. It is your future that matters. And I hope that when you're my age you will be able to say, as I have been able to say, 'We lived in Freedom. We lived lives that were a statement, not an apology.'"

When more Americans, both citizens and politicians, think, speak, and act like this, we will once again return to the American society that existed in the last century, where each person came to this country with nothing but their two strong hands, a mind

to use, and the heart to work and create, and were given the full freedom to do so. Until that time, no "jobs bill" presented by any politician will succeed in improving the lives of any of our citizens.

—ROBERT ZIMMERMAN

No Right to Security

Anyone who says that economic security is a human right, has been too much babied. While he babbles, other men are risking and losing their lives to protect him. They are fighting the sea, fighting the land, fighting diseases and insects and weather and space and time, for him, while he chatters that all men have a right to security and that some pagan god—Society, The State, The Government, The Commune—must give it to them. Let the fighting men stop fighting this inhuman earth for one hour, and he will learn how much security there is.

Let him get out on the front lines. Let him bring one slow freight through a snowstorm in the Rockies; let him drive one rivet to hold his apartment roof over his head. Let him keep his own electric light burning through one quiet, cosy winter evening when mist is freezing to the wires. Let him make, from seed to table, just one slice of bread, and we will hear no more from him about the human right to security.

No man's security is any greater than his own self-reliance. If every man and woman worth living did not stand up to the job of living, did not take risk and danger and exhaustion beyond exhaustion and go on fighting for one thin hope of victory in the certainty of death, there would not be a human being alive today.

—ROSE WILDER LANE
The Discovery of Freedom

Now We Know

How many Rocky Flats workers does it take to change a light bulb?

Forty-three—and that's no joke.

An internal memorandum written by managers of the Jefferson County nuclear weap-

ons plant describes a 33-step process to perform a simple job on a vital safety system, the replacement of a light bulb in a criticality beacon.

A criticality beacon is a red light, similar to the revolving lamp atop a police car, that warns workers of spontaneous nuclear accidents.

The memo said that it takes at least 43 people 1,087.1 hours to replace the light under a new management system enacted by EB&G, Inc., the private firm operating Rocky Flats for the U.S. Department of Energy.

The same job used to take 12 workers 4.15 hours to accomplish, the memo said.

The dramatic increase in time and labor was needed to bring the plant up to safety standards, the managers said. . . .

The new procedure has 33 steps. It calls for a lead planner to meet with six other people at a work control meeting; talk with other workers who have done the job before, meet again; get signatures from five people at the work control meeting; get the project plans approved by separate officials overseeing safety, logistics, environmental maintenance, operations, waste management and plant scheduling, wait for a monthly criticality beacon test; direct electricians to replace the bulb; and then test and verify the repair.

Many of the steps are written in language only a bureaucrat could love.

For example, Step 13: "SES reviews the Work Package and fills out the SES form. The Planner is notified to pick up the package when the SES is complete. The package is in SES for approximately one week. Since this time is concerned with Time Logistics and PES are working on the BOM, no total time is given. The man hours is an estimate of the actual time SES is working on the package.

The step took 16 hours, the memo said.

And it would take 20 more steps—and 854.1 more hours—before the light bulb finally could be changed.

— MARK OBMASCIK
Denver Post

DEFENDING FREEDOM AND THE FREE SOCIETY

by Edmund A. Opitz

Countless generations of men have lived in unfree societies, but many men dreamed of freedom and hoped for the day when their children would be free. Gradually the West developed a philosophy of freedom, a rationale for individual immunity against governmental power. This intellectual movement gathered strength in the eighteenth and nineteenth centuries; Liberalism, as it was called, became the major social force in country after country. As the twentieth century dawned it appeared that the ideals of the free society were safely installed in the thinking of the West and progressively realized in practice in the major countries. But then something happened. In country after country, the highway of Liberalism turned into the road to serfdom. We made an about face in this country, but those who led off in a new direction didn't even bother to change the labels. They still call themselves Liberals, but the program of Liberalism in 1993 is radically opposed to the ideals of a free society. It is merely a pragmatized version of old-line socialism.

We sense that all is not well with our society, nor with our world. Our traditional rights and liberties, once taken for granted,

are in jeopardy; they are undermined by dubious theories, and often overridden in practice. Under constant attack are such things as individual liberty, limited government, the private property concept, and the free market way of doing business. Taken together these items are the essential elements of the free society.

This essay is an effort to get to the roots of the present situation, to determine, if possible, some of the causes; and to suggest, in the light of this analysis, the nature of the remedy. The dislocations which meet the eye most immediately appear on the economic and political levels, but they stem—if the analysis of this paper is correct—from aberrations at the deeper levels of ethics and religion. Believing that no remedy can be successful that does not go at least as deep as the disease, it is suggested that sound economic and political theory, while imperative and good as far as it goes, does not go far enough by itself to make the case for liberty. It is further suggested that the typical added arguments from ethics are in fact substitutes for a genuine ethical theory. The difficulties that confront any effort to construct or revive an ethical consensus are alluded to, leading to an awareness of the need for reconstruction in the area of philosophy or theology. The case for liberty, in short, needs to be watertight. If there is an open seam at any level it may prove to be the gap through which liberty will be lost, for “Nature always seeks out the hidden flaw.”

Mr. Opitz, an associate editor of The Freeman, served as a member of the staff of The Foundation for Economic Education from 1955 until his retirement in 1992. He is the author of the book Religion and Capitalism: Allies, Not Enemies, recently republished by FEE.

Liberty Lost

Given a choice, most people today, will choose liberty—other things being equal. People don't give up their liberties except under some delusion, such as the delusion that the surrender of a little liberty will strengthen the guarantee of economic security. There never has been a serious anti-liberty philosophy and platform as such, whose principles people have examined, accepted, and then put into practice. Things haven't happened this way. But although we haven't chosen statism, statism is what we are getting: Speaking now not of conquered countries where liberty has been suppressed but of nations like our own where the old legal forms have been preserved, we may say that the steady attrition of liberty in the modern world is not the consequence of a direct assault by open and avowed anti-libertarians. No, the steady decline of liberty among people who sincerely prefer liberty if given a choice is the unforeseen and unwanted by-product of something else.

Liberty Regained

Many people are concerned with the plight of liberty and are working toward its restoration. The tremendous upsurge of interest in the libertarian-conservative philosophy since 1950 is sufficient witness to that fact. The libertarian-conservative camp is unanimous in its opposition to every variety of collectivism and statism, but at this point the unanimity begins to break down. Libertarians and conservatives differ among themselves in their estimate of what it takes to challenge the prevailing ideologies successfully. There are four possible levels or stages of the anti-collectivist, pro-freedom argument: the economic, the political, the ethical, and the religious. Do we need to use all four? Or is one or two sufficient? Opinions differ in the libertarian-conservative camp. Let us examine some of the arguments advanced at each level, beginning with the economic.

It is enough to expound free market economics, say some. Socialism is nothing

more than economic heresy and all we have to do is demonstrate the greater productive efficiency of the free market and the socialists will retire in confusion. Freedom works, they say, and as proof point to America's superiority in computers, telephones, bathtubs, and farm products. The improvement of his material circumstance is man's chief end, and the only thing that makes a man a Communist or a collectivist is his ignorance of the conditions which must prevail if a society is to be prosperous.

Most of those who stress economic arguments add considerations drawn from political philosophy. Socialism is not only unproductive economically, but the operational imperatives of a socialist society make government the sole employer. Society is run by command, by directives from the top down, the way an army is run. The individual citizen must do as he is told, or starve. There is no independent economic base to sustain political resistance, so the population in a socialized society is necessarily reduced to serfdom. This is an inevitable consequence of a managed economy, a development which is fatal to such political goods as the Rule of Law, respect for the rights and dignity of the individual, and the idea of private ownership protected by law.

Some libertarians and conservatives agree with the urgent need to argue the case on economic and political grounds, but believe that it must be carried a stage further—into ethics. There is not, they would argue, one ethical code for politicians and another for people—there is just one set of ethical norms which is binding on rulers and ruled alike. A socialized society is poor in economic goods, and its citizens are, politically, reduced to serfs. These are social consequences of the moral violations which are built-in features of every variety of collectivism and statism. The moral violations which this argument has in mind are not simply the obvious sins of totalitarian regimes; the lying for political advantage, the murders for convenience, the concentration camps, and so on. These are included, of course, but this argument is mainly directed

at the more subtle moral violations inherent in the operations of the welfare state.

The welfare state in America, whether run by Democrats or Republicans, is based on the redistributionist principle: "Votes and taxes for all, subsidies for a few." In actual practice, the welfare state deprives all citizens of a percentage of their earnings in order to redistribute this money to its favorites—after taking out a healthy cut to cover its own costs. Such a Robin Hood operation would be both illegal and immoral if private citizens engaged in it; and although any government can, by definition, make its actions legal, it cannot make them moral. Every variety of collectivism, therefore, is charged with ethical violations, in addition to practicing economic and political lunacy.

"Social Utility" Trap

It is at this point that a major rift begins to appear in the freedom camp. Some libertarians challenge the validity of ethical arguments. The universe, they assert, displays no recognizable ethical dimension. Says one of them: "Nature is alien to the idea of right and wrong . . . It is the social system which determines what should be deemed right and what wrong . . . The only point that matters is social utility." Well, all sorts of habit and customs, from primitive ritual cannibalism to using the proper soup spoon, serve the ends of "social utility," and if social utility is "the only point that matters" I doubt that the case for liberty can be made convincing, however skillful our economic reasoning.

Those who discount ethical and religious arguments get off the bus here. These sturdy fighters for freedom have made their choice of weapons and they are drawn exclusively from the arsenal of economic and political theory. But even among those who would use ethical arguments there is great difference of opinion. "Whose ethics?" they ask, or "What theory of ethics?" One group steers clear of religion, regarding it as a strictly private matter with little or no relevance to the free society. A second

group regards religion as hostile to the free society. I propose to deal first with this position.

These anti-religionists employ what they label ethical arguments, as well as arguments drawn from economic and political theory, but when it comes to religion, they draw the line. They want nothing to do with this God stuff! God's existence is, in their eyes, improbable, but this is not all; religious belief is actually harmful! The title of a lecture in a series sponsored by this group is "The Destructiveness of the God Idea." They proudly proclaim themselves atheists.

There are numerous conceptions of God, and every one of us is a-theist-ic with reference to one or more of them. Most self-styled atheists are a-theist-ic with respect to a childish version of the deity. This is about on a par with not believing in the moon because some people say it is made of green cheese! In history there have been men of incomparable intellectual attainments who have been theists, who would not have been theists if they had had to believe in such a concept of the deity as the typical atheist rejects. And the same is true of contemporary theists. There are popular and degrading notions of God, but the argument is not confined to the limitations imposed by superstition!

Competing Ethical Codes

Now let me return to the first group of ethicists; those who lean heavily on ethical arguments but steer clear of the religious area. These people generally understand that in economics, liberty means reliance on the uncoerced buying habits of consumers as a guide to making economic decisions; "the market," in short. In politics, liberty implies limited government. This means that governmental action, circumscribed by a written constitution, is designed to protect the lives, the liberties, and the property of all citizens alike. But it also means that both government and constitution must operate within the framework imposed by an ethical code. In terms of this ethical code, political invasions of personal liberty and property

are morally wrong. If an act is wrong when done by private citizens, it is just as wrong when done by public officials.

Such a statement as this assumes that private citizens and public officials acknowledge and try to live by the same ethical code. They may, or again, they may not. There is not just one ethical code in 1993; there are several competing and conflicting codes even in this country. Today, however, there is general confusion in the area of our moral values, and some contend that "right" and "wrong" are not meaningful terms. Ethical relativism is widely accepted, and this creed maintains that something which may be right in one time or place may be wrong in another time or place.

A century ago in this country the ethical code could pretty much be taken for granted; people's notion of what things were right and what things were wrong were, for the most part, deductions from a common source. We derived our ethical consensus from the prevailing religion of the West, Christianity. This ethical consensus was recognizably different, even a century ago, from the ethical consensus of Hindu society, which sanctioned the division of society into inferior and superior castes, and put millions of outcastes outside the category of human beings. It differed in important ways from the ethical consensus which had prevailed in Greece and Rome. W.E.H. Lecky's famous book, *History of European Morals* (1869), was a dispassionate account of the transformation wrought in the moral ideals of the ancient world by the introduction of Christianity.

But, although there was a nineteenth-century ethical consensus, fateful developments were pending in the realm of religion and ethics. Friedrich Nietzsche told his contemporaries, in effect: You have given up the Christian God and this means that you cannot long retain your ethical code which is bound up with this faith. Let's get back to the ethical code of the ancient Greeks! Nietzsche urged what he called "a trans-valuation of all values." Karl Marx was telling us during this period that the productive efforts of a society are the main

thing; ethical, intellectual, and spiritual things are mere superstructure. The moral values of the nineteenth century, therefore, were capitalist ethics; get rid of capitalist production and capitalist ethics would follow it down the drain, to be replaced by Communist ethics. And Communist ethics, as spelled out by Lenin, are an inversion of Christian ethics. Whatever advances the Party is right and good. Lying and murder are endorsed as ethical practices if they further the cause of the Communist Party.

The ethical confusion has worsened in our own day, and become more complicated. And so an awareness grows that the kind of an ethical code we would endorse is by no means obvious to a lot of people; therefore, if this code is again to become an active principle in the lives of people it needs some attention.

The Lack of an Ethical Consensus

Our traditional ethical code is the end result of a particular historical development. This code is something people have learned; they have imbibed it from Western culture. It is not, in other words, a biological set of guidelines with which people come equipped at birth, as they have two hands, two feet, one head, and so on. Recognition of this fact turns up in odd places. John Dewey, himself no Christian, spent some time in China after World War I, and in 1922 he made this pertinent observation: "Until I had lived in a country where Christianity is relatively little known and has had relatively very few generations of influence upon the character of people, I had always assumed, as natural reactions which one could expect of any normal human being in a given situation, reactions which I now discover you only find among the people that have been exposed many generations to the influence of the Christian ethic." In other words, our traditional ethical code is one we have learned over the centuries in a Christian culture. We were educated into it century after century, until the past several

generations, during which time we have been slowly educated out of it. The assumption that we can take our ethical code for granted and use it to confound the collectivists presupposes a situation that does not exist; it presupposes an ethical consensus, when it is precisely the absence of such a consensus which has helped create the vacuum into which collectivism has seeped!

As the French philosopher André Malraux tells us, we are living in the first agnostic civilization. Until the past two or three generations, men believed that their moral ideals reflected the nature of the universe. But if the universe is a complete moral blank, completely alien to notions of right and wrong, then all moral codes are merely homemade rules for convenience. A rule against murder is on the same level as a rule against driving on the left hand side of the street; there is no intrinsic difference between the two. A libertarian writer defends the integrity of scientific and economic laws as the only constants in the universe. These, he writes, "must not be confused with man-made laws of the country and with man-made moral precepts." It follows, therefore, that if men do not happen to like the ethical code they are living under they can write themselves a new one, just as easily as they can change from summer to winter clothing.

To sum up the matter: We can no longer take our traditional ethical code for granted. The foundation it was based upon has been neglected, and an ethical code, by its nature, is a set of inferences and deductions from something more fundamental than itself. We may behave decently out of habit, but ethical theory—by its very nature—must be grounded in a theology, or cosmology, if you prefer. A belief in the impossibility of ethics because the universe is a moral blank is an instance of the truism that every code for conduct is a deduction from a judgment based on faith as to the nature of things.

We hear it said frequently that individual man, in the totalitarian countries, is made for the state; but here, the state is made for man. If we say that the state is made for man, the implication is that we have come to

some tentative conclusions as to what man is made for. We must have asked, and found some sorts of answers, to questions such as the following: What is the end and goal of human life? What is the purpose and meaning of individual life? What is my nature, and my destiny? Within what framework of meaning does the universe make sense? These are theological and religious questions, and when they are seriously pondered some sorts of answers are bound to come.

That things are senseless and individual life without meaning is one sort of an answer. Once this answer is given, it will start to generate an appropriate ethical code. This is a sort of salvage effort to which the works of the late Albert Camus were devoted. "I proclaim that I believe in nothing," he writes, "and that everything is absurd." The only appropriate response to this act of faith is rebellion, arising "from the spectacle of the irrational coupled with an unjust and incomprehensible condition." This is one reading of the universe and the human condition, together with an appropriate recommended code of conduct. It is, therefore, a religion, although the number of its adherents do not appear in any census. In passing, one might remark that it is a curious kind of "incomprehensible condition" from which a man can apprehend enough to write several books about it! Communism is another contemporary religion. Its universe is a materialistic one, but the universe contains a dynamic force—the mode of production—which is working toward the fulfillment of history in a classless society. And there is an appropriate code of conduct enjoined upon all good Communists.

Choosing Christianity

There is a third option which makes considerable sense to me, and that is Christianity. Such a statement comes as no surprise, and you are probably telling yourself that I, as a professional religionist, have a vested interest in offering just such a conclusion. Permit me, therefore, to digress and sound an autobiographical note. If anyone had told me during my high school years, or

up to my senior year in college that I'd wind up as a minister, I'd have taken it as a personal affront! As things turned out, however, I did find myself in theological school after college, but before the first year had gone by I had decided that the ministry was not for me. I was skeptical about theological matters and decided to go into the field of psychology. In theological controversy it seemed to me there were good arguments in favor of all the basic doctrines, and good arguments against. How, then, does one tip the balance in one direction or another? On the level of doctrinal theory it was difficult for me to say. To make a long story short, I finally returned to theological studies, got my degree, and—full of misgivings—was foisted upon an innocent and unsuspecting congregation.

During these years I held to a parallel set of interests in economics and political science. I was a libertarian before I ever heard the word, based on an acquaintance with the thinking of the Classic Liberals and a prejudice in favor of freedom. But my social thinking was in one compartment and my religion was in another. Unbeknownst to me, however, these two things were on a collision course, and it was fated that one day they should bump into each other. They did, and lots of things began to fall into place. I became aware of what Christianity had meant to Western civilization and to the framing of America's institutions, and before long I had the ingredients to tip my theological balance in the direction of firmer religious convictions. I also knew why Classic Liberalism failed, although it had played its own game with its own deck—it lacked the religious dimension which alone makes life meaningful to individuals and provides a foundation for ethics.

People were freer in the nineteenth century than men had ever been before. This period was the heyday of Liberalism, but it also happened to be the twilight of religion. Large numbers of people became uncertain about the ends for which life should be lived. Lacking a sense of purpose and destiny they were afflicted by the feeling that life has little or no meaning, that the individual doesn't

matter nor his life count. Just when people had the most freedom they lost touch with the things which make freedom really worth having. Freedom had once been affirmed as a necessary condition for man if he were to achieve his true end, but when the religious dimension dropped out of life the advocates of freedom got themselves into a "promising contest" with the collectivists as to which could outpromise the other when it came to delivering the maximum quantity of material things. As was to be expected, the collectivists outpromised their opponents, although their actual performance must forever fall short. Liberty, in other words, is recognized for the precious thing it really is when significant numbers of people know that they must have it in order to work out their eternal destiny.

There are two things I am not saying. I am not saying that we have to cook up or feign an interest in religion merely to accomplish political or economic ends. Such efforts would be fruitless, but even if they were effective I'd oppose them. Secondly, I am not saying that men who, for reasons of their own, cannot embrace religion and ethics, cannot therefore be effective champions of free market economics and limited government. There are technical areas in political theory, and especially in economics, where a lot more enlightenment is needed, and where there is no impingement on the domains of ethics and religion. Nonreligious libertarians may be invaluable here. Even so, they cannot touch all bases. The man who is a socialist for religious or ethical reasons won't be shaken in his convictions by economic and political arguments alone; his religious and ethical misconceptions must be met on their own ground.

Utilitarianism

At this point I shall be reminded that economists, after Adam Smith to the present day, do tend typically to hold some variety of the ethical theory known as Utilitarianism, which dates back to Jeremy Bentham and John Stuart Mill in the early and middle part of the nineteenth century.

But as Mill himself pointed out, the creed has a long history, dating from Epicurus in the third century B.C.

Utilitarianism states its principles in various ways, but invariably it emphasizes two cardinal points—maximum satisfaction and minimum effort. Man, in terms of this theory, acts only to maximize his happiness, pleasures, satisfactions or comfort, and he seeks to do this with a minimum expenditure of energy. Utilitarianism has little or nothing to say about the spiritual, ethical or cultural framework within which its “maximum economy—maximum satisfaction” principle operates. It minimizes or denies life’s spiritual dimension, it uses the word “good” in a non-ethical sense, i.e., equivalent to “happiness producing,” and it asserts that men are bound together in societies solely on the basis of a rational calculation of the private advantage to be gained by social cooperation under the division of labor.

The Utilitarian proposition that each man invariably tends to achieve his ends with a minimum of effort says nothing about the means he may or will use. The “maximum economy” principle, when it first took over as a conscious maxim of human behavior—in nineteenth-century England—operated within the value system or ethical code persons happened to have at the time. The ethical code in the West during the period of the appearance and gradual acceptance of the “maximum economy” principle—during the past century—was largely a product of the religious heritage of Europe. This ethical legacy assured that although men would tend to take the line of least effort in the attaining of their ends, they would at the same time use only those means which are compatible with the moral norms enjoined by their religion. Moral norms are restraints on certain actions, and if the “maximum economy” principle is fervently accepted it must go to work on the restraints embodied in the ethical code whenever they interfere with the line of least resistance between a man’s aims and their realization. The “maximum economy” principle, by its very nature, necessarily sacrifices means to ends,

and in the circumstances of the modern world Utilitarianism begins to undermine the old ethical norms wherever these impede an individual’s attainment of his economic ends.

Robbery, it has been observed, is the first labor saving device. If a man accepts, without qualification, the precept “Get more for less” as his categorical imperative, what will he do when a combination of circumstances presents him with a relatively safe opportunity to steal? His ethical compunctions against theft have already been dulled, and the use of theft as a means of acquiring economic goods is one of the possible logical conclusions that may be drawn from the “greatest economy” principle. Theft is, of course, forbidden in many of the world’s ethical codes, and conformity to these codes over the millennia has bred a reluctance to steal in most men. Thievery there has been aplenty despite the bans, but it has been accompanied by a guilty conscience. The “maximum economy” principle, when first accepted, is applied to productive labor within the framework of the code. But if the idea of “Get more for less” is a principle, why not apply it across the board?

There are two impediments to a man’s acquisition of economic goods: First, there is the effort required to produce them, and second, there is the prohibition against stealing them. The former is in the nature of things, but the latter comes to be regarded as merely a man-made rule. The “greatest economy” principle goes to work on the first impediment—productive effort—by inventing labor saving devices; it goes to work on the second impediment—the moral code—by collectivizing it. It reduces the commandment against theft to a matter of social expediency.

Society is admonished against theft on the grounds that a society in which property is not secure is a poor society. But this truism offers no guidance to the individual who finds himself in a situation where he can steal with relative impunity. To the extent that he is emancipated from “outmoded” taboos and follows the line of least resistance, he will steal whenever he thinks he

can get away with it, and to make theft easier and safer he will start writing a form of theft into his statutes: "Votes and taxes for all, subsidies for us." Utilitarianism, in short, has no logical stopping place short of collectivism. Utilitarian collectivism is not a contradiction in terms, although particular Utilitarians, restrained by other principles, may stop short of collectivism.

Utilitarianism purports to be a theory of ethics; man ought to act, it declares, so as to augment the quantity of satisfactions. It is usually linked to a theory of motivation which sweepingly declares that every human action aims at improving the well-being of the acting agent: "acting is necessarily always selfish." Capitalism, it is asserted, is based on this deterministic psychology. The militant atheist group mentioned earlier adopts what it calls a morality of self-interest. "Morality is a rational science," we read in their literature, "with man's life as its standard, [and] self-interest as its motor." "Capitalism," the author continues, "expects, and by its nature demands that every man act in the name of his rational self-interest." Let us examine this unqualified assertion. Capitalism, or the market economy, begins to work automatically in a society where there is a preponderance of fair play and an evenhanded justice in operation. Lacking these essential conditions capitalism cannot be made to work. Here's a person with more shrewdness than ability; he has little energy and fewer scruples. On the market, the verdict of his peers is that his services aren't worth very much; so he consults his rational self-interest—unimpeded by old-fashioned ethics—and learns that his shrewdness and lack of scruples admirably equip him to operate a racket. He starts one, and becomes wealthy and famous. Would anyone care to try to convince an Ivan Boesky, for instance, that it is really to his own self-interest to play the game fairly even though this would put him behind the wheel of a bakery truck at \$160.00 per week? How can the anti-capitalistic mentality, if it is true to itself, and acts in its own self-interest, project a capitalist society? The answer is, it can't.

Some accidents of history shattered our society's ethical and religious framework just at the time when free market economists came forth armed with insights into human behavior in the areas of production and trade. But because men respond one way in one sector of life it cannot be inferred that they respond the same way everywhere, nor that they should. Oddly enough, it is precisely free market economists themselves who best embody this truism. Free market economists in these days find a poor market for their services. There is, on the other hand, a great public demand for the tripe palmed off as the new economics by the "social scientists."

Resisting all such market demands the free market economists stand by their principles even though this means that, with motives impugned, they are lonely voices, victims of academic and professional discrimination. Why do they not yield to pressure of popular demand, as they themselves advocate should be done in the realms of production, trade, and entertainment? Does the market demand ridiculous spike-heeled shoes and mismatched clothes? Then give the public what it wants, say the free market economists; in the realm of material things, the majority is always right. Are there complaints about the high salaries of rock wailers and Hollywood sex symbols, coupled with laments about the low estate of the legitimate theater? Yes, but not from free market economists who conceal any disgust they may feel and merely say, "Let the public be served." But when it comes to the realm of ideas the economists, to their enormous credit, ignore the market—public and majority pressures—and do not trim or hedge or yield an inch on their convictions. In other words, they operate with one set of principles in the realm of material things—"Give the public what it wants"—but they invoke another set of principles when they enter the realm of economic ideas—"Resist public pressure on behalf of intellect and conscience." Oddly enough, however, there is nothing in their philosophy to legitimize the second set of principles. They know by a kind of instinct or intuition that

ideas or opinions which have a price tag attached—as if they were marketable commodities like any other—are not worth much, and neither is the person who hawks them. But instincts and intuitions, however civilized and humane, are largely uncommunicable.

Conduct, however exemplary, cannot make its point when it is tied to a philosophy which alleges that the game of life has no rules; therefore, seek private advantage, maximize personal satisfactions. No matter how such ingredients as these are combined they won't result in a philosophy of liberty. This needs something else, namely, a framework of values which makes possible a different approach. The restoration of our ethical consensus and the repair of our value system brings us to arguments on the religious level. The traditional arguments in this area won't be given a fair shake by our contemporaries unless there is a contemporary approach to them which really confronts us with them. Perhaps there is such an approach.

The City of God and The City of Man

Christianity introduced a concept into the thought of the West which is alien to the thinking of Plato and Aristotle, the two major thinkers of the ancient world. This new concept has been called, after Augustine, the idea of the two cities: the City of God and the City of Man. Man, it is asserted, holds his citizenship papers in two realms, the earthly and the heavenly. He is to negotiate this life as best he can, seeking as much justice and such happiness as this world permits, but in full awareness that his ultimate felicity may be attained only in another order of existence.

This concept would have been largely incomprehensible to the Greeks. Man, for Aristotle, was a political animal who might find complete fulfillment in the closed society of the Greek city-state. A standard work on this aspect of Grecian life is Ernest Barker's *Political Thought of Plato and Aristotle* (1906, 1959), and a few sentences

from this book convey the flavor of the Greek outlook. Summarizing Aristotle, Barker writes: "The good of the individual is the same as the good of the society The notion of the individual is not prominent, and the conception of rights seems hardly to have been attained." Speaking of Socrates, Barker writes, "For him there was no rule of natural justice outside the law; law is justice, he held, and what is just is simply what is commanded in the laws." Ethics and politics are one, and there is no distinction between Church and State. The city-state, "being itself both Church and State . . . had both to repress original sin—the function to which medieval theory restricted the State, and to show the way to righteousness—a duty which medieval theory vindicated for the Church."

After the decay of ancient society and the polarization of Church and State, the distinction between spiritual and secular power in Europe and America for the past nineteen centuries guaranteed that there would always be some separation and dispersal of power within the nation. But with the dropping of the religious dimension from modern life we return to the unitary state in both theory and practice. This was obvious to Barker early this century as he foresaw the rise of the welfare state: "It seems to be expected of the State that it shall clothe and feed, as well as teach its citizens, and that it shall not only punish drunkenness, but also create temperance. We seem to be returning to the old Greek conception of the State as a positive maker of goodness; and in our collectivism, as elsewhere, we appear to be harking 'back to Aristotle.'"

Christianity introduced another concept into Western thought which has had an effect upon our thinking about government, the concept of the Fall. Christian thought distinguishes between the created world as it came from the hand of God, and the fallen world known to history; between the world of primal innocence we posit, and the world marred by evil, which we know. It follows from this original premise that Christian thought is non-behaviorist; it is based on the idea that the true inwardness of a thing—its

real nature—cannot be fully known by merely observing its outward behavior. Things are distorted in the historical and natural order, unable to manifest their true being. Man especially is askew. He is created in the image of God, but now he is flawed by Sin.

Some political implications may be drawn from these premises: It has been a characteristic note in Christian sociology, from the earliest centuries, to regard government not as an original element of the created world but as a reflection of man's corrupted nature in our fallen world. Government, in other words, is a consequence of sin; it appears only after the fall. Government is an effect of which human error and evil are the causes. Government, at best, is competent to punish injustice, but it cannot promote virtue. In other words, the Christian rationale for government is incompatible with the total state required by collectivism. When the Christian rationale for government is understood and spelled out, the only political role compatible with it is the modest function of defending the peace of society by curbing peace breakers. When government is limited to repressing criminal and destructive actions, men are free to act constructively and creatively up to the full limit of their individual capacities.

We arrive at a similar conclusion by contemplating the second half of the Great Commandment, where we are enjoined to love our neighbor as ourselves. The bonds that should unite people, it is here implied, are those of unyielding good will, understanding, and compassion. But in collectivist theory, on the other hand, people are to be put through their paces by command and coercion. This is the nature of the means which must be, and are being, employed in even the most well-intentioned welfare state. In practice, every collectivized order careens toward a police state whose own citizens are its first victims. The love commandment of the Gospels, brought down to the political level, implies justice and parity and freedom. There is no way to twist these

basic premises into a sanctioning of the operational imperatives of a collectivist society.

The argument from liberty to Christianity has now been sketched in outline. Those who would limit the defense of liberty to a discussion of free market economics, with an assist from political theory, have a genuine role to perform, as far as they go. And if they cannot bring themselves to accept the truth of ethics and religion, integrity demands that they refuse to pretend otherwise. Their economic arguments are much needed, and thus they are invaluable allies in this sector. But liberty has not been lost on this level alone, and it cannot be won back on this level alone.

We are confronted, not only by highly developed and sophisticated arguments for socialism and communism, but by fully collectivized nations.

Before there was ever a collectivist nation, there was a collectivist program. Before there was ever a collectivist program, there was a collectivist philosophy. Before there was ever a collectivist philosophy, there were collectivist axioms and premises, with appropriate attitudes toward life, and an appropriate mood.

The roots of collectivism go this deep, right down to our basic attitude toward the universe and our primordial demands on life. This is the level of a man's fundamental orientation of his life, the level at which religion begins to do its work. We must get squared away here, otherwise our thinking on the other levels will be distorted. But with a proper religious orientation—at this fundamental level of basic attitudes and mood—we can work out a philosophy of freedom.

When we have worked out the philosophy of freedom, we can advance a program based upon it.

And when we have a freedom philosophy and program we will eventually get a free society. This sounds like a laborious route to take, and it is. But life doesn't serve up many short cuts. □

Is ‘‘FREEDOM’’ AN ANTIQUATED TERM?

by Wilma J. Moore

Some of George Orwell’s memorable insights in the novel *1984* concern the power of language. The function of Newspeak was not merely to express ideas but to manipulate them so that freedom would come to mean slavery and ultimately to be embraced willingly as such.

It would seem that much subtle manipulation of language is going on today. In a world that seems to be rejecting Communism and questioning its partner socialism, the purveyors of collective social and economic theories are still vigorously proselytizing their vision of a brave new world. Though the message is not being proclaimed in terms as blunt as “class conflict,” “equal distribution of wealth,” “centralized economic planning,” or “dictatorship of the proletariat,” the collective meaning inherent in these expressions is being shifted to other more acceptable words and phrases.

An example of this subtle linguistic mutation is the word “subsidy.” The dictionary meaning is straightforward: a grant of money by the government to a private enterprise to effect public benefit. The implication is that the government first takes part of the wealth of all taxable individuals, and then distributes it to private entities to perform some service from which ostensibly all those individuals will benefit, e.g., police

protection, garbage collection, or street sweeping. What is important here is the implication that the wealth being transferred is first private wealth belonging to the citizens who earned it, and only after taxation does it then become government wealth.

How is the word “subsidy” being transformed before our eyes? Let me give you an example: The newspaper in my medium-sized California city features a columnist who is ostensibly a “spokesperson” for modern feminism of the leftist variety. No, she doesn’t indulge in rabid, hate-all-things-masculine-and-[wo]man-the-barricades prose, but her very reasonableness and low-key style make her use of language an important barometer of leftist thought.

In a recent article she aimed her guns at the inaccurate stereotype of the welfare mother who lives “high on the hog” with public money. Her particular example was that of a woman whose husband had left her just before the birth of their fourth child. The gist of the article was that public assistance helped this woman keep her family together and allowed her ultimately to attend law school and become an attorney.

The ex-welfare mother attorney was interviewed in the article and described the demeaning way in which the welfare office had treated her and other mothers on public assistance. Along with the benefits she had received, she described the roadblocks which the bureaucracy had placed in the

Mrs. Moore is a free-lance writer in Santa Rosa, California.

way of anyone trying desperately to get off welfare, how eligibility workers were more fond of pushing people into low-paying dead-end jobs than into higher paying professions. Neither the columnist nor the attorney advocated scrapping the system. In good socialist fashion they placed the blame upon an unfeeling public which nurses the unfair stereotype and which rails at the system's obvious waste and inefficiency.

The last paragraph of the article reveals the subtle shift in thought which has given new meaning to the word "subsidy." The attorney contrasted the welfare mother on \$600 a month of government money to a "wealthy businessman" who "doesn't have to pay taxes." In her mind the latter situation is "the same as being subsidized." She ended the article with the attorney's comment, "Who do you want to give your money to?"

Obviously, the article writer was not above allowing the stereotype of the wealthy businessman to aid her in her crusade to reverse an unjust stereotype of the welfare mother. Neither was she above using a brand of Newspeak in drawing the

conclusion that the welfare check and the tax write-off are both government subsidies.

There is only one premise that would support the notion that these are one and the same and that "your" money is being given to the businessman as well as to the welfare recipient. That premise is that all wealth, regardless of how it is generated or by whom, first belongs to the state, a blatantly collectivist idea dear to every Marxist visionary.

If this notion is becoming part of the accepted definition of subsidy, then we must wonder what other concepts are undergoing subtle semantic changes. Is it possible that freedom of speech will become freedom to use only socially correct words and phrases? Could the right to ply one's trade become a privilege licensed by the government? Could the term private enterprise come to mean licensure, government franchise, and state monopoly? Could the right to own private property come to signify a privilege granted by the sovereign state on condition of approved use and the payment of taxes? Could independence come to mean need? Could freedom come to mean slavery? Does it already? □

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ANTITRUST REGULATION: BACK TO THE PAST

by D. T. Armentano

There is a disturbing new activism in antitrust policy that threatens to spell trouble for consumers.

Last year Attorney General William Barr proposed to apply U.S. antitrust law extraterritorially to the Japanese *keiretsu* system of closely linked firms. The House Judiciary Committee appears ready to recommend the repeal of the McCarran Act, the property/casualty insurance industry's fifty-year exemption from federal antitrust law. And the Justice Department has initiated a wide-ranging antitrust investigation of pricing practices in the air carrier industry where there has been increasing concern about market concentration.

Current antitrust attitudes are somewhat reminiscent of the pre-Reagan era. Traditional antitrust enforcement (1945–1980) had been based on the theory that firms in concentrated markets could restrict competition, raise prices, and misallocate economic resources. This position was discredited when antitrust critics (such as Robert Bork) argued that market share and concentration were related to economic efficiency and not “monopoly power.” Other scholars

argued that the antitrust laws themselves had been employed (by private and public plaintiffs) to protect less efficient competitors and not the competitive process. This argument and case analysis, together with some key administrative appointments, paved the way for modest changes in antitrust enforcement in the 1980's.

Reagan's trustbusters initiated price-fixing cases consistent with the (dubious) theory that attempts at horizontal price collusion seriously threaten the competitive process. But there were fewer cases involving high market share, mergers (within more liberal guidelines), price discrimination, tying agreements, or “predatory” practices since these activities were thought to promote economic efficiency and consumer welfare.

Is there now sufficient reason to abandon the 1980's antitrust mini-revolution? Hardly. The congressional and Bush Administration antitrust initiatives are misguided attacks on the competitive process—in the name of protecting it. And special interests—who would directly benefit by regulatory protectionism or increased litigation—are again spearheading the drive for a more “vigorous” enforcement of antitrust law.

Any rational antitrust policy depends upon resolving the ambiguity over the meaning of “competition.” Some free-market

D. T. Armentano is professor of economics at the University of Hartford and author of Antitrust Policy: The Case for Repeal (Cato Institute, 1991).

economists hold that competition is an unfettered market process of discovery and adjustment under conditions of uncertainty that involves both business rivalry and cooperation. The more traditional academic position, however, is that competition exists only if firms have relatively small market shares, entry is "easy," firms do not cooperate (collude), and if economic profits tend toward zero. The first view sees little value in any antitrust intervention—other than to ensure that markets are legally open. The second view envisions a robust regulatory agenda where trustbusters act to preserve a "competitive" market structure and "competitive" firm behavior.

The traditional competitive model is irrelevant in a dynamic business world with imperfect information. Antitrust attempts to micro-manage market structure or firm behavior to comply with that model's arbitrary assumptions would be destructive of efficiency and competition. Especially pernicious would be attempts to interfere with inter-firm cooperative arrangements—which trustbusters routinely mislabel as "collusive." Contrariwise, business cooperation is essential in achieving the economic efficiencies that will keep firms competitive in tomorrow's international marketplace.

Business Cooperation, Efficiency, and the Competitive Process

The new antitrust initiatives continue to misconstrue the relationship between business cooperation, efficiency, and the competitive process. In the Japanese *keiretsu* system, for example, many large firms have formed "industrial groups" with informal patterns of cooperation between suppliers, manufacturers, distributors, and banks. Some of these cooperative arrangements have produced substantial efficiencies in the use of resources, especially information, and have made the member firms better overall competitors. Yet the wrong-headed antitrust concern here is that these efficient inter-firm alliances create "entry barriers" for U.S. exporters while they lead to lower import prices here. Instead of allowing sim-

ilar patterns of cooperation in the U.S., the antitrust regulators appear anxious to threaten efficient foreign suppliers with litigation.

The current attempt to repeal the insurance industry's antitrust exemption is a similarly misconceived attack on cooperation. Critics of the industry's performance have argued that the exemption allows collusive agreements that restrain trade and increase rates to policy holders. But with over 3,500 firms of different sizes, low market concentration, and easy entry, any talk of effective price collusion strains credibility. The antitrust exemption is required so that the firms can share loss-experience data and cooperate in the underwriting of large risks.

Currently the most important antitrust risk is in the air carrier industry. The 1978 deregulation led directly to an expansion of service, lower prices, and to a reorganization of routes, equipment, and corporate assets—all without any antitrust meddling. But now important sentiment exists to use antitrust to re-regulate market structure and firm behavior. Critics hold, among other things, that the computer reservations system (CRS) owned by the major carriers must be additionally regulated (or divested) and that the industry's overall pricing system is likely collusive and illegal.

The antitrust regulation of technology would not be intelligent public policy. Several of the larger carriers (led by American and United) invested heavily (\$200 million) to develop a CRS which now provides information efficiencies to the traveling public. Any antitrust divestiture of the CRS would create strong disincentives for future technological investment; it would also provide unearned windfall benefits to the smaller carriers. Level playing field and fair trade arguments are as irrational in antitrust as they are in international trade. Economic welfare is not advanced by protecting less efficient suppliers from an improved technology or by expropriating the benefits of risky entrepreneurship.

The Justice Department has also initiated an investigation of the pricing process em-

ployed by the air carriers. Changes in fares are announced through an electronic clearinghouse (Airline Traffic Publishing Co.) *before* they are actually put into effect; fares are then adjusted upward or downward depending upon how rivals react to the announcements. The trustbusters are apparently concerned that this system of pricing encourages subtle "price signaling" which may well be a form of price collusion prohibited by law.

Is this pricing process anti-competitive? Yes, if the relevant benchmark is the traditional competitive model where demand and supply information is fully known and firm behavior is never interdependent. No, if competition is a discovery and adjustment process under conditions of uncertainty with imperfect information.

Firms certainly intend to communicate (signal) information to passengers and rivals when they announce fares. In addition,

firms intend to discover information from the reactions of rivals and readjust their own prices accordingly. Market uncertainty and interdependence create a market process where air carriers must search constantly for the price and service combinations that maximize their competitive advantage. But this trial-and-error process does not restrain trade, as is evidenced by the current price wars and by the financial history of the industry since deregulation.

All of the new antitrust initiatives should be rejected. Federal and state trustbusters have neither the incentive nor the information to manage industrial structure or firm behavior intelligently. The visible hand of antitrust should only be used to remove legal barriers to business rivalry and cooperation. Issues such as firm size, market share, pricing behavior, technological change, and inter-firm cooperation should be left to the invisible hand of the market process. □

Ten Thousand Commandments

The breakup of the leading integrated companies and the divorce, divestiture, or dissolution of the biggest producers and distributors, whether integrated or not, is a luxury the country cannot afford. Its "great concentrations of economic power" in American industry are more essential to the nation's defense than its great concentrations of administrative power in Washington.

The new interpretations of the antitrust laws endanger the political structure of the country. They disintegrate the law, making it a respecter of persons, which tends to be no law at all. They upset the balance of power between Congress and the courts, by judicial legislation, which is a usurpation of Congress' role. Whatever "power" they take away from business organizations will not revert to the people but is automatically being appropriated by government agencies.

—Harold Fleming

IDEAS
ON
LIBERTY



ARE THERE TOO MANY LAWYERS?

by Joseph S. Fulda and Patrick J. Vincent

It might appear that the question "Are there too many lawyers?" reeks of the discontent with the market that still prevails among the elites who support the discredited models of the managed economy. Indeed, given world events, no one should have to answer questions such as "Are there too many shoemakers?" It is simply up to consumers willing to pay certain amounts for shoes, accessories, and repair—the demand schedule—and up to would-be shoemakers willing to offer their services at certain wage rates—the supply schedule—to jointly determine the number of shoemakers.

Closer analysis, however, as well as some startling data suggest that lawyers providing legal services to plaintiffs are in a class of their own. Yes, there is a market for legal services and, yes, a free-market society does have a place for actions at law. Notwithstanding this, however, legal services are fundamentally different from other services, simply because lawyers must use the law—the State—to give plaintiffs the property of defendants. Today's plaintiffs' bar is expert at using the law to attain wealth by what Albert Jay Nock called "the political means" rather than "the economic means"—i.e., by redistribution of existing wealth

Dr. Joseph S. Fulda has been writing for The Freeman since 1981. Lt. Patrick J. Vincent of the U.S. Navy is currently assigned to the U.S.S. Alaska.

rather than the creation of new wealth. Indeed, it is clear that the very same ethos that informs legislative redistribution is responsible for judicial redistribution: the cultivation of a state of mind which asserts the victimhood of select groups. While legislative redistribution typically focuses on race, gender, ethnicity, poverty, and similar "victims," judicial redistribution typically focuses on class interests, among them: tenants, consumers, employees, and those suffering from injury, illness, or loss of function due to unfortunate accidents that are no one's fault.

Besides the moral point, judicial intervention—like all strictly redistributive processes—results in a far less robust economy, one designed to avoid judicial redistribution rather than one designed to create and produce. Empirical support for this conclusion abounds: (1) The United States has only five percent of the world's population, but has fully seventy percent of the world's lawyers. (2) We spend more than eighty billion dollars a year on direct costs of litigation and on insurance premiums and a total of three hundred billion dollars on indirect efforts to avoid liability. (3) The threat of litigation has caused 47 percent of manufacturers to withdraw products from the market. (4) The threat of litigation has also discouraged no less than 25 percent of manufacturers from some types of product research. (5) Largely due to the fees brought

in by the plaintiffs' bar, our trial lawyers are the best-paid attorneys in the world. (6) *Per capita*, we have 30 percent more lawsuits than do the Japanese, one of our main competitors in the creation of wealth. (7) In Japan, the ratio of engineers to lawyers is 20 to 1, but in this country it is 2.5 to 1.¹

At this point it is well to make some qualifications. First, it is true that the market may decide that the potential harm of a risky good or service outweighs its potential benefits. The market properly both embraces and limits risk, as reflected in the supply and demand schedules for risky goods and services. Second, liability for civil wrongs—torts—remains a powerful disincentive for fault, and one that works. Third, contingency fees do allow access to the courts by those with a genuine complaint who cannot afford to retain counsel.

Unfortunately, however, far too many folks welcome the chance to be plaintiffs, since being a plaintiff is cost-free. The contingency-fee cases that the plaintiffs' bar handles—principally malpractice and product liability cases—allow any number of lawsuits regardless of the merits of the complaints. Indeed, since there is no effective penalty for frivolous lawsuits, the demand schedule is potentially infinite, restrained only by a vague sense in ordinary citizens on what is properly the subject of a

suit at law and what is not. But the statistics above show nothing if not that such sensibilities are rapidly disappearing, and when obstetricians stop delivering babies *en masse*, it is time to restore some limits on the demand schedule for lawyers.

The most obvious reform, long advocated by many, is to require unsuccessful plaintiffs to pay the defendants' legal fees. A second reform is to make the system inherently less redistributive, by changing the burden of proof. The present system allows redistribution from defendant to plaintiff when there is "a fair preponderance of the credible evidence," i.e., with just 51 percent of the merits in the matter. Whatever happened to the old adage, "Possession is nine-tenths of the law?" The standard currently used for some federal suits, "clear and convincing evidence," is much to be preferred.

It cannot be emphasized enough that the only way to genuinely improve the lot of the masses is by the creation of new wealth rather than the redistribution of existing wealth. As Governor Richard Lamm put it, "No nation in history has ever sued its way to greatness."² □

1. David Gergen, "America's Legal Mess," *U.S. News and World Report*, August 19, 1991, p. 72.

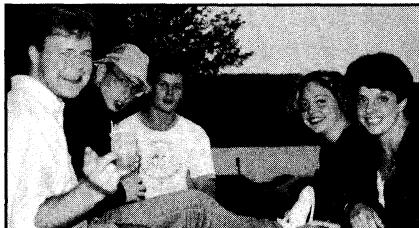
2. *Ibid.*



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Zoo, Inc.

By David Haarmeyer and Elizabeth Larson

What do you do with a homeless peacock? Zookeepers had to deal with such problems when the Petting Zoo at Manhattan's Central Park closed in 1991 because of New York City's budget troubles. Most of the petting zoo's inhabitants found new homes with local families. Fortunately for both zoo animals and the children who visit them, many cities are privatizing their zoos rather than letting the gates close for good.

For years, private zoological societies worked alongside city zoo officials, raising funds and running education programs and concession stands. Now, as local governments are forced to rein in runaway budgets, zoological societies are taking charge of operating entire zoos. Nearly 40 percent of the 165 American zoos accredited by the American Zoological Association—among them, zoos in Fort Worth, Cincinnati, New Orleans, San Diego, and Jackson, Mississippi—are run by private, nonprofit societies. And that figure is on the rise: Officials in Boston, Pittsburgh, Milwaukee, Fresno, California, and Birmingham, Alabama, among other U.S. cities, are now considering privatization as well.

The success of privately financed and managed zoos should not be surprising. After all, running a zoo is foremost a problem of managing resources. Like large corporations, good zoos operate by balancing a number of potentially conflicting objectives: education, research, conservation, and recreation. Shutting off the flow of subsidies from general taxpayers (many of whom may

not have a taste for zoos) makes good management essential, benefiting both a zoo's animals and its patrons.

The fact that privately operated zoos may spend only what funds they raise necessitates cost-effective operations—managers who keep their eyes on the bottom line—as well as creativity—more exotic animals, grander housing that actually looks like the plains of the Serengeti or the jungles of Brazil, high-tech, hands-on experimental displays for kids that are fun and educational. In striving to please zoo patrons, good zookeepers will improve the well-being of their animals, ensuring not only clean concession areas but clean zoo cages.

Financial independence brings two other important aspects to zoo management. In addition to revenue from admissions and concessions, zoos depend on donations from local families, corporations, and non-profit groups. These sources tend to donate more to private organizations than to government programs, over which donors have little control. Unlike government, which has a notoriously short time horizon, private zoos offer stability. Donors can be confident that the large sums they contribute for long-term projects will be used properly.

In contrast to non-zoo-loving taxpayers, who have little interest in how bureaucrats run "their" zoo, those individuals and corporations who donate time and money to a zoo have a strong interest in seeing that it is well run and in holding zoo managers accountable for their decisions. Like major shareholders of corporations, these zoo stakeholders are often board members and play an important role in monitoring the zoo's management and financial affairs.

David Haarmeyer is a policy analyst at the Reason Foundation. Elizabeth Larson writes for Reason magazine.

The Philadelphia Zoo: A Model of Private Operation

Although privatizing zoos appears to be a trend for the '90s, private zoos have been around for decades. The oldest zoo in the United States—the Philadelphia Zoo, operated since 1859 by the Philadelphia Zoological Society—has given supporters of privately operated zoos something to crow about for many years. The society's efficient management and imaginative exhibits make it the obvious model for zoo officials considering privatization today.

Not a penny of the Philadelphia Zoo's \$14-million operating and capital budgets for 1991 came from government coffers. Instead, the zoo depended on admission fees (76 percent of revenues), memberships, corporate support, and special events to keep its budget balanced. Society members have come up with such creative annual fundraisers as the Zoobilee! party, the Teddy Bear Rally, the Ben Franklin Look-Alike contest, and the Run Wild at the Zoo 10-kilometer race.

And to continue attracting patrons, members of the Philadelphia Zoological Society have made their zoo more than just a park with caged beasts. For children of any age, the 42-acre Philadelphia Zoo is an adventure. One of the more spectacular exhibits is the Treehouse. Visitors walk past gigantic fiberglass frog eggs and a mammoth tree or through monstrous replicas of bees and honeycombs. You imagine that you've shrunk to the size of the creatures whose "environment" you're exploring, and you can feel and smell exactly what it's like. Bear Country and the World of Primates offer other close-up views of life in the animal kingdom.

The Philadelphia Zoological Society has had so much success running its own zoo that the group has formed a for-profit management-consulting subsidiary, which now helps other zoos put their finances in order. Rick Biddle, chief operating officer of the Zoological Society, points to a new \$8-million aquarium across the river in Camden, New Jersey, as one of the subsidiary's latest success stories. The society will be

taking over operation of this underwater zoo as well.

America's oldest zoo is not the only model for officials considering privatization. Southern California is home to what is probably the best-known private zoo in the United States. Since opening in 1922, the San Diego Zoo and Wild Animal Park have been in the hands of the San Diego Zoological Society. Thanks to the society's nearly 200,000 members—the world's largest zoo membership—only two percent of the zoo and park's \$480-million operating budget comes from the local government.

More than 18,000 visitors came out for the grand re-opening of the recently privatized Fort Worth Zoo last spring. An editorial in the *Fort Worth Evening Star-Telegram* hailed the "new primate house, the Asian Falls with its 40-foot waterfall and the natural environment that has been created for some of the world's most wonderful creatures," as well as one local family whose generous donations to the zoo made many of the renovations and new exhibits possible. The paper's editorial staff also pointed out that while many might have originally thought *privatizing* meant restricting access to the public, privatization of the Fort Worth Zoo encouraged "the generosity of a few private citizens" and, thanks to their donations, the zoo has actually "been opened to more people than ever before."

Not all zoos have cut themselves off from public funds cold turkey, however. In 1978, officials in Knoxville, Tennessee, turned over the city zoo to the private, nonprofit Knoxville Zoological Society. It was understood at the time, says the zoo's director, Ted Beattie, that the zoo would eventually become completely self-supporting. The society now receives just \$400,000 (about 12 percent) of its \$2.9-million annual operating budget from the Knoxville city government.

Another privatized zoo that has all but weaned itself from public funds is the Audubon Zoo and Aquarium in New Orleans. The Audubon Institute Inc. runs the zoo and aquarium on a \$20-million annual operating budget with 600 employees. The city has given the Audubon Institute about \$1 million

over the last three years, none of which was used to balance the books; it has all gone to capital improvements. Audubon Institute officials hope to turn their zoo into "a regional Smithsonian" and are planning a breeding center for endangered species.

While a few such private zoos still accept government subsidies, most believe that getting government out of the zoo business is in their long-term interest. In Boston, the state-operated Franklin Park Zoo will soon be turned over to the Commonwealth Corporation, which will work alongside the Commonwealth Zoological Association. State employees of the zoo, which currently has a \$2.85-million budget, are expected to be employed eventually by the private corporation.

The Problems of Mixing Public and Private Management

Predictably, government zoo officials aren't always eager to hand over the reins. As a result, some zoos have developed co-management/ownership arrangements between government officials and private, nonprofit zoological societies. If the experience of the Los Angeles Zoo is any indication, however, mixing public and private managers can be just as messy as letting government do the job alone.

The much-publicized power struggles between the Greater Los Angeles Zoo Association and the L.A. Recreation and Parks Commission resulted in the resignation in November 1991 of the Association's president, Bruce Nasby, who had raised paid association memberships from 80,000 to some 135,000 during his 3½-year tenure. The lion's share of the responsibility for running the L.A. Zoo has returned to the city government, but the Zoo Association continues to lend a hand: the Association contributes some \$9 million to the zoo's \$25-million annual budget and is still in charge of the concession stands. With both private and public keepers still involved in managing the L.A. Zoo, accountability is diffused and the source of contention remains.

At the Metrozoo in Miami, Florida, tension between the zoo's public keepers and

private fundraisers has been growing for nearly a decade. The Zoological Society of Southern Florida thinks city officials put too much emphasis on salaries and employee benefits and too little on zoo maintenance and promotion. Of the zoo's \$7.6-million operating budget for 1990, 68 percent went for salaries and benefits. And \$2.9 million of the budget came in the form of subsidies from the county coffers.

The Zoological Society, on the other hand, has had no trouble raising funds to improve life for the animals and attracting more visitors. In 1985, with 43,000 members, the society built the zoo's \$1-million animal hospital. By 1990, society membership had nearly doubled to 71,000, and the organization was able to contribute \$1.1 million toward the new \$1.32-million Asian River Life exhibit.

Society president Sherrill Hudson hopes to make the Metrozoo as good as or better than the private San Diego Zoo. "We need to do a lot of fundraising," she told the *Miami Herald*. "There's no question that everywhere people are skeptical about giving money over to the government. The private sector could do it, though. We could build the zoo out in five to seven years."

Bill Bird, director of the local County Park and Recreation Department, dismisses the notion that any private group could finish the Metrozoo in that amount of time. At most, public officials see the possibility that someday both the county and the society might operate the zoo together "as a hybrid creature."

Private zookeepers are successfully rejuvenating troubled zoos because, unlike their public counterparts, they have clear incentives to manage their zoos as they would a business. As with any business, the customer is king, and with today's heightened awareness of environmental issues, zoo patrons want to visit animals that are healthy and well cared for. Because funding is directly tied to the satisfaction of a zoo's visitors, private zoos are proving themselves not just better at balancing their budgets but at acting as caretakers of animals and teachers of men. □

STATE HEALTH INSURANCE REGULATIONS

by Eric-Charles Banfield

Many government policies, notably those separating consumers from suppliers, distort the economics of health insurance, and prevent market forces from addressing the problems. Yet regulators considering "reforms" promise to give us only more of the same. Better remedies exist, and Congress is taking note.

Health insurance is increasingly expensive, mostly due to the rising cost of health care. Those costs are rising for many reasons, most of which are tied to Medicare, Medicaid, Veterans Administration hospitals, licensing restrictions, malpractice law, and other government policies. But government meddling in the health insurance business itself accounts for a large part of the problem, explaining over half of the uninsured population.

Employer-Provided Health Insurance

U.S. tax policy provides incentives for businesses to provide health insurance, despite the fact that the average person stays with an employer on average only four years.

That tax policy also triggers excess spending, especially on small claims. Using a tax

Eric-Charles Banfield is owner of Banfield Analytical Services in Westmont, Ill., specializing in writing, speaking, and testifying about financial, economic, and public-policy issues.

break not allowed to individuals, companies give employees an expensive, low-deductible, high-premium health insurance policy instead of giving them higher wages.

Low deductibles tell people to use insurance for routine health care, even though insurance is really for catastrophic, unpredictable expenses. Tax policy also says that employees, once past their deductible, cannot keep any money they save by not using their insurance.

The incentive to use-it-or-lose-it, combined with low deductibles, tells employees to use insurance for everything possible, making them less careful about where and how they spend that money. Most of the rising cost of health care is because of the increase in demand for health services we might not otherwise pay for, and all of the administrative costs that go with them. It can cost \$50 to process a \$50 claim. Tax policy makes people bid up costs aggressively, and that accounts for much of the high rates of growth in health-care costs, which in turn drives up health-insurance costs. Those policies price up to 10 million people out of the market, over a quarter of the uninsured population.¹

So, in a strange way, the problem is that we are over-insured, but that excess coverage occurs at the low end of the health-care scale, where most expenses fall (\$100 to \$1000).

With insurance tied to employment, an

employee who loses his job would be uninsured. Legislatures in most states passed laws forcing firms to continue ex-employees on their group-insurance plans if the former employee picks up the premium payments. But those premiums are very high due to the low deductibles, far too expensive for someone whose income has just been cut off.

It is difficult to select a higher deductible in order to lower the premium payments, because the plan is a group plan instead of an individual plan, and it is not permitted to change the deductible. It takes time to find and shift to a new individual or short-term policy, and the high premiums make it difficult to afford coverage during that search period.

Mandated Coverage, Special Privileges

State laws also mandate that insurers pay for services determined by the political process, not by market forces. Often they have little to do with health care per se. About 800 insurance mandates force insurers to pay for such things as marital counseling, pastoral counseling, toupees, and even sperm-bank deposits. Studies report those mandates bid up insurance prices by 30 percent or \$50 billion,² pricing eight to ten million people out of the insurance market,³ about a quarter of the uninsured population. State legislatures are the cause of millions being uninsured and underinsured.

The government has given Blue Cross/Blue Shield (BCBS), formerly a hospital pre-payment plan, various special privileges granting them a competitive edge over other insurers. BCBS is exempt from taxes, anti-trust regulations, actuarial requirements, and reserve requirements. With those privileges, BCBS can afford to use "community rating," giving all people in a geographical area the same premium rate regardless of risk. Risky people pay too little; low-risk people pay too much. BCBS loses customers as other insurers pick the healthiest customers and offer them lower rates. Facing shrinking premium income and having no reserves, some state BCBS plans are going broke.

With their obvious political power, those state "Blues" propose laws (as in New York and Vermont) to force community rating on all insurers. But those insurers face real costs because they don't have the same privileges as BCBS. Younger and healthier people in those states, forced by law into a community-rating pool, face much higher premiums, up to triple in some cases. With nowhere else to go (all insurers in the state face the same law), they drop their expensive coverage and go uninsured. When they develop problems in later years, they will find insurance prohibitively expensive or unavailable in those states.⁴

Gag Rules and Other Distortions

States have even enacted laws prohibiting insurance agents from saying anything bad about an insurance company.⁵ That deprives consumers of valuable information from those who would know best. It cuts off the primary source of information about which insurers are slow to pay, in financial trouble, or otherwise poorly managed.

Other government factors distort the insurance market. Some states fix the prices or range of prices that preferred-provider organizations (PPOs) can offer.⁶ Eight or nine state insurance commissioners do not have the right to regulate insurance premiums, but, according to industry classifications, "act as if they do" through their cumbersome filing and approval process for insurance policies.⁷ The government and the legal system have made insurance policies into one-way, standardized, take-it-or-leave-it contracts, with little consumer input into what the contract says. As with federal deposit insurance, government regulation and implicit guarantees lessen consumer concern about safety and reliability.

New Regulatory Threats

Minnesota has passed Universal Health Insurance, and other nearby states have similar bills. Other states are considering improving community rating requirements.

A group of multi-state regulators (actuaries working for state commissioners) is drafting legislation that would regulate the price, quantity, and profit margin of the small-group and individual insurance markets. The Life and Health Actuarial Task Force is considering putting ceilings on premium rate increases, forcing guaranteed renewability, and raising "lifetime loss limit ratios."⁸

Economic market forces dictate that price and quantity naturally respond to each other. Artificial rate ceilings would have to be made up by reducing coverage. But forcing renewal increases coverage, and should require higher rates. But rates are fixed by ceiling. In case that's not enough to push insurers out of the market, the higher loss limit ratios mean more benefits paid and fewer premium dollars taken in, or a lower operating profit margin. Insurers will stop doing business in certain states, and some may be driven out of business altogether.

Individual Medical Accounts

One solution that would go part way toward solving the health insurance problem is Individual Medical Accounts (IMAs). Also known as Medical Savings Accounts or Medical IRAs, these accounts would reduce bidding for needless services, provide for financial resources to cover medical expenses, and provide a portable account in case of job loss.

Tax policy is a major reason employers offer health insurance. That tax break means the firm takes what would otherwise have been an employee's wages and buys instead an expensive, low-deductible insurance policy that the individual might not choose if he had to pay the premium directly.

IMAs would allow employees to select a higher deductible, say \$1000 instead of \$200, and put the premium savings of about \$800 into a tax-free, interest-bearing account that would be immediately available to cover payments up to the deductible. Insurance would kick in as usual for amounts over the deductible.

IMAs would have a "use-it-or-keep-it"

feature, allowing individuals to accumulate any savings (from not using the account in a given year) over time. The insured would then have new incentive to be frugal with health care, shop more carefully, compare prices, and not use it to cover needless trips to the doctor for minor ailments or frivolous services. That would in turn reduce the bidding of prices at the routine care level and reduce the administrative costs associated with small claims. Best of all, if the employee loses his job, he can carry the account with him and use it to pay for medical expenses or buy interim or individual insurance coverage.⁹ The cost would be the same to employers, and employees would have more freedom.

Reform, or Else

Health-insurance regulation drives a wedge between the consumers and those who provide it, weakening further their ability to choose for themselves what they want. Government involvement in insurance is primarily responsible for the reduced accessibility and increased cost of health insurance.

Government must deregulate the insurance business. The only thing worse than the continued destruction of the insurance market would be the subsequent national health insurance system that the U.S. government would run. □

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THE GOVERNMENT BABY-BROKERING BUSINESS

by K. L. Billingsley



Slavery officially ended over 100 years ago, but traffic in human beings still exists. Thanks to federal funds, the business is thriving. The trade is part of what one author calls the "child-abuse industry."

No one denies that child abuse is a serious problem. But there is much room for doubt as to its extent. Richard Wexler, author of *Wounded Innocents*, estimates that up to sixty percent of child-abuse reports are bogus. An extensive grand jury investigation in San Diego found similar problems and revealed a system that is driven by money and power.

Those accused of child abuse are held to be guilty until proven innocent. Informers need never face those they accuse. Worse, if those accused of child abuse deny doing anything wrong, social workers take that as further evidence of guilt. Whatever the facts, the parents are held to be "in denial" and children then may be seized. This creates, in effect, a hostage situation. The desperate parents will do almost anything to get their children back.

Author and screenwriter K. L. Billingsley writes about California for the Spectator.

Our government exists to preserve liberty and individual rights, not to subsidize official corruption, broken families, and a loss of freedom.

In these cases there are two certainties: (1) It will cost the family a great deal of money, whether or not they get their children back. (2) Other people stand to make a great deal of money from the family's ordeal.

Juvenile Courts farm out the kids to private therapists, who have good reason to be selective. They prefer military children with the fathomless vaults of CHAMPUS (Civilian Health and Medical Program of the Uniformed Services) funds behind them. San Diego's Department of Social Services pays therapists \$40 an hour. Under CHAMPUS, however, a psychiatrist gets \$78.60 for 45 minutes and a psychologist brings in \$70.

A similar situation exists for the parents. If they want their children back, they must attend numerous counseling sessions. Those who conduct these sessions prefer subjects with government-backed insurance programs. Those whose insurers have deep pockets find themselves put on expensive "maintenance" programs.

Meanwhile, social workers place children in foster homes. The San Diego grand jury acknowledged a widespread perception that social services were in the "baby-brokering business." Foster care had become a "cottage industry with a strong political voice." Again, money drives the system.

Federal funds for foster care are practically unlimited. A foster parent receives \$354 per month for each child up to age four and \$484 for those aged five to eighteen. These amounts are nearly double the rate a welfare mother gets. There is also a clothing allowance for foster parents, and special care rates up to \$1,000 a month. All foster-care payments are tax-free. According to the grand jury, "this open-ended funding stream may have been partially responsible for excessive placement of children in foster care."

Foster care, said the jury, had become a "business" and "many foster parents are motivated by money." In some cases, the jury found, foster care funds were the families' sole income. It thus seems clear why some foster parents readily sabotage reunification plans. It is in their financial interest to retain someone else's children.

After several years of careful investigation, the San Diego grand jury blasted "bias and zealotry" in a system "characterized by "confidential files, closed courts, gag orders, and statutory immunity." The jury found evidence that social workers "disobey court orders" and "lie routinely, even when under oath." This situation was "intolerable," but the department was "incapable of policing its own."

The local Juvenile Justice Commission even raised the possibility of "criminal conspiracy" on the part of child protectors. But in spite of numerous recommendations for change, few reforms are in evidence.

One infamous case involved the Wades, a Navy family. A therapist relentlessly badgered eight-year-old Alicia Wade for thirteen months until she accused her father of raping her. Physical evidence finally exonerated James Wade, but the girl narrowly escaped being adopted away forever. The family is currently in financial ruin, having spent some \$150,000 defending themselves. The foster system returned the girl to the Wades without her glasses. She was also taking a medication to which she was allergic.

Such horror stories are far from unusual, both in California and nationwide. These stories prove a truth that government officials are slow to grasp: you get what you subsidize. Our government exists to preserve liberty and individual rights, not to subsidize official corruption, broken families, and a loss of freedom. □

GROWING TOYOTAS, MANUFACTURING SOYBEANS

by Gary North

(DES MOINES, IOWA)—Jeremiah V. Jones, a farmer living in nearby Elkhart, thinks it will be a very good year. “The weather has been excellent. We ought to get a good crop.” This fall he planted Toyotas. “We rotate the crops, of course. In fall, we plant Toyotas. In spring, it’s Nissans. In summer, we usually plant Isuzus, mostly for ground cover. It works out well most years, although a drought three summers ago wiped out half our Isuzus.”

When asked about models and colors, he says he’s betting on red winter Toyotas. “Pretty hardy crop. Withstands cold weather better than the metallic blue variety. Good crop for Iowa. ‘Course, if anything comes of this global warming business, we may have to switch. No signs of it yet, though.”

(NAGOYA, JAPAN)—Toshiro Uda, director of the Tanaka Soybean Works, is guardedly optimistic about prospects for soybean sales this year. “Demand remains high. But why not? This is Japan, after all. Our main concern is with supply. The whole industry has been adding plant capacity. The new robots have really streamlined production.”

Gary North is president of the Institute for Christian Economics.

Mr. Uda pointed with obvious pride to the main floor of his spotlessly clean factory. Only three men were visible, sitting in front of computer screens, monitoring every aspect of the soybean production process, from the “just in time” deliveries at the front end of the factory to the robot-controlled packaging as the newly canned beans headed to the docking area. “Nothing else like it in the industry,” he said.

Who Buys What?

These two news reports sound like something out of a bizarre science fiction short story about some future era where nanotechnology—manufacturing at the molecular level—has become a reality. Economically, however, both reports are the essence of a modern economy. Sometimes it takes a little surrealism to make economics clear to people.

The farmer in Iowa who plants soybeans or any other crop aimed at the market has no intention of personally eating his crop—certainly not soybeans. In the United States, soybeans are eaten mostly by household pets and certain health food devotees. Most of the soybean crop is exported, and a significant portion winds up in Japan.

The goal of farmer Jones is not to con-

sume soybeans. He plans to buy something else. He wants money. He will sell the crop to the highest bidder, but agricultural crops being what they are, a uniform price will confront all soybean farmers, adjusted for transportation costs and other minor differences. In the bidding war, the Japanese importers of soybeans usually win. They buy the lion's share of the crop. Soybean oil is used for many products. Fido and kitty get most of whatever remains. Although I find it difficult to imagine, I suppose the rest goes into soybean burgers.

Similarly, the goal of Mr. Uda is not to drive a fleet of Toyotas. He plans to buy something else. He wants money. He will sell the Toyotas to the highest bidder, but car sales being what they are, a lot of non-price competition exists: models, colors, and features. In the bidding war, the Americans will buy, if not the lion's share, then at least a good-sized black bear's share.

Taken as an individual, farmer Jones may or may not buy a Toyota or feed his household pets soybeans. Mr. Uda may or may not eat more soybeans or buy a new Toyota this year. But taken as nations, a lot of Joneses will buy Toyotas, and a lot of Udas will buy soybeans.

The economic question is: What is the least expensive way for the Joneses to buy their Toyotas, and for the Udas to buy their soybeans?

Getting the Money to Buy

To buy a Toyota produced in Japan, Mr. Jones will need some Japanese yen. To buy some soybeans, Mr. Uda will need some dollars. But neither Mr. Jones nor Mr. Uda normally handles the currency of the other nation. So, intermediaries in both countries (or maybe in a third country) intervene to make it possible for both Jones and Uda to buy what they want. They sell dollars to the Japanese importer who wants to import soybeans. They sell dollars for yen. They sell yen to the American importer who wants a shipment of Toyotas. They sell yen for dollars. Back and forth, back and forth: the currency traders are always in search of

a lower price for the currency they plan to buy next. The importers then sell their newly imported products to buyers in their respective nations.

How do the soybean farmers get the dollars to pay the importers of Toyotas? They grow soybeans. How do the Toyota manufacturers get the yen to buy the soybeans? They manufacture Toyotas. So far, so good.

The Iowa farmer is uniquely equipped to grow soybeans. He has a tremendous advantage here. The Japanese manufacturer is not uniquely equipped to manufacture Toyotas. Land costs in Japan are high: too high for growing soybeans—low value per square foot—but not too high for manufacturing Toyotas. It would be a lot more expensive for the Iowa farmer to shift production to Japan than it would be for the Toyota manufacturer to build a Toyota factory in Iowa.

The economic reality is this: the soybeans will move from Iowa to Japan for as long as the high bidders for soybeans are in Japan. Meanwhile, Toyotas will move from Nagoya to America for as long as the higher bidders are in America and the overall costs of production plus export remain lower in Nagoya.

Giving a Good Account

I would rather drive a Toyota than eat soybeans. There are Japanese who would rather dine on soybeans—presumably a great deal of soybeans—than drive a Toyota. As always, there is no accounting for taste. There is, however, accounting for cost of production.

Accountants on both sides of the Pacific Ocean are fluent in a strange and arcane language: double-entry bookkeeping. The discovery and development of double-entry accounting was one of the greatest discoveries of all time. It allows specialists in accounting to inform a producer regarding the success or failure of his efforts. The market provides the numbers: income vs. expenditures. The accountants inform the producers: "keep up the good work" vs.

"shut the whole thing down until you figure out a cheaper way." When the producers listen to their accountants, an amazing thing happens: soybeans get grown in Iowa, and Toyotas get built in Nagoya.

Well, maybe this is not so amazing. But explaining to people how this happens is more difficult than you might imagine. People really do not understand the whole process. This is why politicians can frequently persuade voters to erect barriers to imports. Politicians rarely campaign on a platform of "Let's pay more for the things we enjoy!" but they often campaign on a platform of "unfair competition." They get elected, too.

The Economists' Disadvantage

Economists have discovered a way for drivers and diners to fulfill their respective desires with the least expenditure of money. It is called free trade. Each producer specializes in what he does best, that is, does with the least expenditure of scarce economic resources. Each consumer is therefore able to take advantage of the cost-effective production methods of the least wasteful producers. The trouble is, economists have not always been as successful in explaining this as the politicians have been in persuading voters to go along with tariff increases and import quotas. It is not easy to persuade voters in either country that Iowa farmers are really growing Toyotas, while Nagoya workers are really producing soy-

beans. It is not easy for most voters to grasp the fact that the laws of physics and biology are different from the laws of economics: specifically, the law of comparative advantage.

The politician looks at the short run. "Look at all the jobs that these imports are destroying." The economist looks at the long run: "Look at all the choices each individual can make." Voters see unemployed workers, or read about them. They have a lot more trouble relating their increased number of affordable choices to the decrease of restraints on trade. People frequently vote in terms of short-run issues, especially visible ones. So, the politician has long enjoyed an advantage over the economist in persuading people to support restraints on trade. It takes a very good economist to make the case for long-term personal advantage for many consumers vs. short-term advantages of reduced competition for specific unemployed workers. Adam Smith was a very good economist; he made a persuasive case. But not many people read Adam Smith these days.

Not being Adam Smith, I have taken a shorter path to economic understanding: a bit of surrealism to make my point. So, I recommend that the next time you test drive a Toyota, think about that Iowa farmer and how hard he works to make your test drive economically possible. But remember: you are skipping the joys of eating several soybean burgers in order to make your test drive possible. □

Frank Chodorov

Wherever two boys swap tops for marbles, that is the market place. The simple barter is in terms of human happiness no different from a trade transaction involving banking operations, insurance, ships, railroads, wholesale and retail establishments; for in any case the effect and purpose of trade is to make up a lack of satisfactions. . . . In like manner, the Detroit worker who has helped to pile up a heap of automobiles in the warehouse is none the better off for his efforts until the product has been shipped to Brazil in exchange for his morning cup of coffee. Trade is nothing but the release of what one has in abundance in order to obtain some other thing he wants.

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*Paul Johnson
rescues the 1980s
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Ronald Reagan was barely out of the office before the liberals got busy. The 80s are now remembered, not as the longest period of growth in our nation's history, but as the sleazy "Decade of Greed."

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GOVERNMENT RACKET

by John Chamberlain

In the course of assembling material for his book, *Government Racket: Washington Waste from A to Z* (Bantam Books, 270 pp., \$7.95 paperback), Martin Gross has had to have recourse to the twenty-six letters of the alphabet. It's all a manner of speaking, of course. Gross needs a double and triple alphabet. He has had to use the letter C at least a score of times (C for Consultants, C for Congressional Committees, C for Chief Executive, etc., etc.).

His book abounds in singularities. He has discovered, for instance, that the Department of Education doesn't teach a single one of our children—and only contributes six percent of the massive cost of education. States and districts account for the rest. The Department of Transportation covers less than half the cost of our roads. The Department of Energy doesn't pay our electricity, oil or gas bills. The Department of Health and Human Services doesn't furnish a majority with any medical care. The Department of Agriculture provides services to farmers whose number decreases every year, even as the number of its bureaucrats increases.

So where does the money go? The old answer was that it went to buy my baby clothes just to keep her in style. But this was a gag. The money goes to buy aircraft and limousines to keep government employees—mainly bureaucrats—rolling through the skies and on the ground. Their wives must roll, too. New buildings go up in Washington and New York “like in the

Roman Empire.” The census counters do more than count individuals every tenth year of their supposed mission. In between times they may inspect what you keep in your freezer.

Anyone could lead the House of Representatives in opening prayers—but the House Chaplain gets a salary of \$155,300—and this, says Gross, is “no typo.”

Washington's biggest growth industry is the Congressional Committee—today there are approximately 300 committees in the House and Senate. Joint committees have proliferating sub-committees, each with its own chairman, staff, office, and perks.

We're talking, says Gross, about a small army: “7,800 people in the House and 4,000 in the Senate—a total of almost 12,000 federal employees.” Each Senator has 40 aides, not counting those on his Committees.

The growth of staff has pushed Congress into looking for still more space. In addition to the three House Office Buildings (Cannon, Rayburn, and Longworth) and three Senate Buildings (Hart, Dirksen, and Russell), Congress has taken over two more buildings near the Capitol and renamed them in honor of former Speaker Tip O'Neill and former President Gerald Ford.

Besides the Washington office, each Congressman has also up to three offices in his home district. Says Gross, one district office is enough for any Congressman. The others should be closed.

Then there is “the shadow empire.” This

consists of outside consultants who get up to a thousand dollars a day with the taxpayers footing the bill. Reagan considered this scandalous. But instead of getting angry, all Jimmy Carter and Reagan had to do was to sign an executive order outlawing all consulting contracts. "Just a stroke of the pen," says Gross, who adds, "We're still waiting."

The General Services Administration has allowed one Congressional leader to pay more than \$3,000 for a single desk. So how much is spent on furniture and decorating each office? "No one in the government really knows," says Gross.

There have been 11,000 members of Congress, with some 800 still alive. About 600 belong to the U.S. Association of Former Members of Congress, which makes them "super lobbyists." They are privileged to walk on to the House floor at all times. Armed with status and access to former buddies "even in the House or Senate cloakroom, dining room, gym, or swimming pool," the super-lobbyist can accomplish miracles.

Gross says we are in terrible shape with a federal debt that has passed the four trillion dollar mark. In 1993, it will cost us \$315 billion just in interest. We do crazy things, such as spending nearly one billion dollars for unwanted honey just to keep beekeepers happy. In one year we gave away the total honey crop while the American people bought the same amount of honey from overseas. We have stored a billion dollars worth of helium underground, enough to last to the twenty-second century. And the junkets go on, with no real demand for travel to distant places. One hundred people went to the Paris Air Show for \$200,000.

The \$4 trillion debt looms like Mount Everest until we come upon Gross's item about land purchases. The government, he tells us, owns thirty percent of all land in the United States. At this point, one is inclined to say, "Wow!" If we were to sell the land to tax-paying people we'd be out of debt, wouldn't we? Yes, but it isn't going to happen. Congress has just paid \$1.9 billion, or \$50,000 an acre, for raw forest land.

Pork takes up considerable space in Gross's book. Do we really need to spend \$107,000 to study the sex life of the Japanese quail? Or \$60,000 for Belgian endive research? Or \$84,000 to find out why people fall in love? Gross quotes Senator Proxmire as saying, "I have spent my career trying to get Congressmen to spend money as if it were their own, but I have failed."

Gross's own cure for the whole business of waste is to suggest the creation of two executives to run the government in the president's name. One would be Chief Operating Officer; the other would be Chief Financial Officer. Their big function would be to by-pass the cabinet. With "ZBB," or Zero Based Budgeting that pays no attention to last year's appropriations, and with the president having a line-item veto, we might have real reform. On the other hand, only a limitation of the terms of office for Senators and Representatives (twelve years for Senators, eight for Representatives) could spread the fear of God through Capitol Hill. □

The Radicalism of the American Revolution

by Gordon S. Wood

Knopf • 1991 • 447 pages • \$27.50

Reviewed by Doug Bandow

The American Revolution is traditionally thought of as a rather conservative affair, a bourgeois revolt against imperious royal rule that kept public affairs out of the hands of the masses. And "if we measure the radicalism of revolutions by the degree of social misery or economic deprivation suffered, or by the number of people killed or manor houses burned, then this conventional emphasis" is warranted, writes Gordon Wood in *The Radicalism of the American Revolution*. But Wood, a professor of history at Brown University, contends that however tame the actual rebellion against Great Britain, the ultimate social results were far more dramatic than could have ever

been imagined. In just a few years the events of the 1770s had dramatically transformed American society, turning it into one "unlike any that had ever existed anywhere in the world," writes Wood.

Wood begins by sketching colonial life, focusing on the political, economic, and social hierarchy that stemmed from the monarchical system. His summary of a society that seems almost as archaic as Medieval Europe makes for a delightful read.

The fount of authority in America before the Revolution was the British king. Because of the tendency to emphasize the differences between life in Britain and the colonies, observes Wood, "we have often overlooked how dominantly British and traditional the colonists' culture still was; indeed, in some respects colonial society was more traditional than that of the mother country." Around the monarchy was arrayed the aristocracy, the patrician class thought destined to rule the plebeians.

It is true that Americans were considered uncouth, unruly, and often defiant. But this neither distinguished them from their British counterparts nor meant the monarchy was irrelevant. True, the crown worn by George III was different from that worn by James I. "Yet, however superficial and hollow, it was still a monarchical society the colonists lived in, and it was still a king to whom they paid allegiance," explains Wood.

Some of the affectations of monarchy seem particularly ironic today. The consumer is now "king," but before the Revolution the king's servants scorned commerce. True gentlemen might dabble in economic affairs, but they "were not defined or identified by what they did, but by who they were," observes Wood. To work—as a doctor, lawyer, merchant, printer, or whatever—in order to live indicated a low social station. Once one's reputation as a gentleman had been established, however, one could engage in a commercial activity so long as it was seen as an avocation rather than a vocation.

Colonial America was also noteworthy for the role of patriarchy, which, argues

Wood, "may even have been stronger in America than in England precisely because of the weakness in the colonies of other institutions, such as guilds." Although primogeniture was not uniformly followed in colonial inheritance law, the first-born male was usually the favored heir. Hierarchy was also strengthened in early America by the institutions of slavery and indentured servitude.

A society like this operated naturally through the practice of patronage. Personal relationships dominated both economic and political relations. "The world still seemed small and intimate enough that the mutual relationships that began with the family could be extended outward into the society to describe nearly all other relationships as well," writes Wood.

Yet as pervasive as were both monarchy and hierarchy in colonial America, challenges began to emerge before the formal rebellion against London. Republican principles were gaining adherents, eroding not only support for the king but also the many institutions, such as an established church, that buttressed his rule in a monarchical society. The colonies were "therefore a society in tension, torn between contradictory monarchical and republican tendencies," observes Wood. As a result, "the connectedness of colonial society—its capacity to bind one person to another—was exceedingly fragile and vulnerable to change."

And change it did when the Revolution shattered the traditional bonds between people. There was none of the conditions typically thought to give rise to revolution—the oppression, poverty, and war that characterized Czarist Russia, for instance. To the contrary, the colonists were, in the main, relatively prosperous and free. But they seemed to see their success as terribly precarious, especially as what had been a well-ordered, hierarchical society began to break down. "Men who had quickly risen to the top were confident and aggressive but also vulnerable to challenge, especially sensitive over their liberty and independence, and unwilling to brook any interference with

their status or their prospects," writes Wood.

Because monarchical ties were as important economically and socially as they were politically, the Revolution's assault on those relationships had far-reaching effects on colonial society. But, Wood emphasizes, "this social assault was not the sort we are used to today in describing revolutions." Rather than proletarians versus bourgeoisie, for instance, they were "patriots versus courtiers," the latter being the primary beneficiaries of the patronage of a hierarchical society.

To replace patronage the leading revolutionaries hoped to establish new bonds, principally what Wood calls the notion of "benevolence," the natural ties that all men should have to one another. But what was envisioned as a form of republican virtue was itself doomed, if not by human nature, then by the other social forces, such as demands for equality, loosed by the Revolution. In fact, argues Wood, "the Revolution resembled the breaking of a dam, releasing thousands upon thousands of pent-up pressures," which the classical political theories of the revolutionary leaders were unable to contain. To the horror of those who wanted the government to be "based on virtue and disinterested public leadership," in Wood's words, the system instead quickly focused on factions and interests, primarily commercial. Artisans organized slates for city council elections; representatives of other professions as well as ethnic and religious groups quickly followed suit. Farmers and creditors were no different.

The perceived lack of public-spiritedness had important political implications. "By the 1780s many of the younger revolutionary leaders like James Madison were willing to confront the reality of interests in America with a very cold eye," writes Wood. The federal Constitution was crafted to both limit the power of factions and enhance the role of the disinterested in serving in government. Yet it didn't take long for interest-group politics to dominate national as well as local politics. As the theory of a disin-

terested elite governing the nation became increasingly illusory, pressure rose to expand the suffrage and destroy, at least in the North, what remained of American aristocracy.

One positive development of the breakdown of traditional patronage was the rise of voluntary associations, something noted by Alexis de Tocqueville, among others. Observes Wood: "In the three or four decades following the Revolution newly independent American men and women came together to form hundreds and thousands of new voluntary associations expressive of a wide array of benevolent goals." The result of the Revolution was not much-maligned atomistic individualism, but rather new, voluntary forms of social cooperation. Nevertheless, Wood argues that the chief ties between Americans became commercial—that even the "Great Awakening" revivals early in the nineteenth century did not bring people together so much as did financial interest. Wood is surely right that business played a much more important role in the U.S. than in most European nations at the time. Still, in an age when families were thriving, associations were forming, and churches were reviving, he seems to overemphasize the importance "of interest and money as the best connecting links in society."

The fact that government was not the organizing agent in society was something of which the revolutionaries could be proud. Perhaps Wood's most important observation is that while "no one was really in charge of this gigantic, enterprising, restless nation" in the early 1800s, there was no disarray. To the contrary, "the harmony emerging out of such chaos was awesome to behold." It is, in fact, a testament to the sort of spontaneous order that Friedrich Hayek wrote about earlier this century, the natural result of a free society.

Yet Wood is probably right to conclude that the founders of the American Republic were less than pleased with their handiwork; many of those who lived on into the next century, he writes, "expressed anxiety over what they had wrought." Even Thomas Jefferson, no defender of aristocratic privi-

lege, "hated the new democratic world he saw emerging in America—a world of speculation, banks, paper money, and evangelical Christianity."

The irony is that the disillusionment felt by America's revolutionaries over the course of America's revolution was quite different from that felt by English (and American) liberals over the course of the French Revolution. There was no murder, oppression, and tyranny in the new United States. Rather, the classical republican ideal gave way to what the original revolutionaries perceived to be crass, commercial, and interest-bound democracy. Wood admits that there was a price to be paid for the sort of political system that developed, but he still celebrates the "real earthly benefits it brought to the hitherto neglected and despised masses of common laboring people." And it surely has done so for many years.

Alas, those benefits began to shrink as the constitutional design created by the revolutionaries to contain the power of faction started breaking down by the middle of the nineteenth century. Today we are seeing the deleterious consequences of a government that, despite the best efforts of the founders, has become a captive of clamorous interest groups. □

Doug Bandow is a Senior Fellow at the Cato Institute and the author of *The Politics of Plunder: Misgovernment in Washington*.

Liberalism in Contemporary America

by Dwight D. Murphey

Council for Social and Economic Studies, 6861 Elm Street, Suite 4H, McLean, VA 22101, 1992 • 320 pages • \$25 paperback

Reviewed by William H. Peterson

Liberalism, that cover word for the American Left, the powerful intellectual movement that has swept over this country through most of this century, takes a most optimistic regard of government interventionism from federal bank deposit

insurance and Social Security in the New Deal days to the Environmental Protection Agency and national health insurance today. These liberals peddle—plainly but softly—a Planned Society.

Today their demigod Karl Marx has been put into the closet with the demise of Euro-communism, but their more recent demigod John Maynard Keynes has been resurrected so as to repeal the cycle of boom and bust once and for all. And for all their talk of "Democracy," they elevate centralization and reduce the individual to a pawn on the chessboard of a New World Order.

Dwight Murphey, professor, lawyer, author of *Understanding the Modern Predicament*, does a splendid job dissecting liberalism. He does so mainly through reporting the stands and slants, including flip-flops, on current events of the flagship liberal journal, *The New Republic*, from its inception in 1914 to early 1985.

The Murphey strategy is sound. Events such as the Sixteenth Income Tax Amendment, World War I, Prohibition, the Great Depression, the New Deal, World War II, McCarthyism, the Eisenhower Administration, Vietnam, the new Left, Reaganism, and so on have to be liberally interpreted, even perhaps orchestrated, for the broader media. *The New Republic* and *The Nation* (also treated by Murphey) seemed to have given marching orders to such bigger circulation opinion makers as *The New York Times*, *Washington Post*, *Los Angeles Times*, *Time*, *Newsweek*, CBS, ABC, NBC, and so on. This is liberal revisionism on the march, telling America what to think.

Dwight Murphey gives us quite an intellectual journey through the years as liberalism reveals relativism and dissimulation in the thoughts of such movement liberals as Woodrow Wilson, Herbert Croly, Thorstein Veblen, John Dewey, Stuart Chase, John Kenneth Galbraith, Robert Heilbroner, and Michael Harrington. Right along through the decades these thinkers have consistently departed from the role model of limited government set forth by the Founding Fathers in the Declaration of Independence, the Constitution, and the Bill of Rights. The

Ninth Amendment, which reserves to the people powers not specifically delegated to the federal government, is foreign to them. They glorify the State. Liberty, which shares with liberal the same etymological roots in the Latin word *liber* meaning free, is hardly in their vocabulary.

No surprise, then, that the liberals long had quite a love affair with the Soviet Union even to the point of turning a blind eye to Stalin's death-by-starvation of the Kulaks in the early 1930s. The Soviet Union, after all, was the zenith (or was it?) of a Planned Society and a counterforce to the rise of Nazi Germany. But the love affair turned sour, notes the author, with the Hitler-Stalin Mutual Nonaggression Pact of August 1939 which was quickly followed by Hitler's invasion of Poland from the west, soon matched by Stalin's invasion of Poland from the east. Once again, the editors of *The New Republic* had to cover their tracks.

Similarly *The New Republic* was initially very friendly to the takeover of Cuba by Fidel Castro. With the influence of writer-reporter Herbert Matthews of *The New York Times* who had interviewed Castro in his Sierra Maestra stronghold, *The New Republic* editors described Fidel in 1957 as "nationalistic, socialistic, anti-American, and noncommunist." But by 1960 the magazine was forced to declare that "Communism has crossed the Atlantic and now squats 90 miles off-shore."

So it goes, with the liberals calling many shots in American opinion, sometimes inaccurately, always *illiberally*. Historian Otto Scott decries in the foreword "the modern liberal tendency to shout down opposition, to engage in *ad hominem* methods of argument, [and] to engage in blacklisting and censorship."

Dwight Murphey's labor of love is a contribution to right thinkers, telling them to continue to be on guard against the slings and arrows from the outrageous Left.

Dr. Peterson, an adjunct professor with the Heritage Foundation, holds the Lundy Chair of Business Philosophy at Campbell University, Buies Creek, North Carolina.

Short-Term America: The Causes and Cures of Our Business Myopia

by Michael T. Jacobs

Harvard Business School Press, Boston • 268 pages • \$24.95

Reviewed by Hal Gordon

One of the most quoted aphorisms of Sony's Akio Morita is that in Japan, managers think ten years ahead; in America, ten minutes.

Superficially, the criticism is valid. American business executives are short-term profit maximizers, and this country's long-term ability to compete in world markets has suffered as a result. But why? Are American managers inherently myopic, avaricious, or just plain stupid? Not really. To a great extent, as Michael Jacobs explains in his current book, they are merely responding in a rational way to the network of incentives and controls created not by the market, but by government.

"America's economy," writes Mr. Jacobs, "was founded on the belief that markets work. Yet the United States now operates the most heavily regulated financial system on earth."

Consider the banking industry. One reason why Japanese managers think in terms of decades and not in quarters is that in Germany and Japan banks sit on the boards of major corporations. Banks not only provide the capital necessary for steady growth, they hold managers strictly accountable for the long-term success and profitability of the enterprise. In the United States, banks are prohibited by New Deal-era legislation from owning stock in non-financial companies.

Banks are conservative institutions that favor long-term growth. Excluding them from an ownership role in corporations means that both banks and corporations are poorer as a result. But government regulation, of course, does not end there.

The principal owners of corporate America are the pension funds and other institu-

tional investors that hold over half the stock of the hundred largest U.S. firms. Like banks, these owners tend to be conservative by nature and one might suppose that they would be the perfect long-term shareholders. The trouble is that government discourages the owners of America's corporations from acting like owners. SEC and state regulations make it hard for shareholders to take concerted action to discipline or replace poor managers. Proxy battles are difficult and costly, and forty states now have anti-takeover laws.

Furthermore, current interpretations of the antitrust and tax laws are so broad that if an institutional investor attempts to exercise ownership—even by so much as nominating a candidate for the board of directors—that investor is liable to be accused by the FTC of subverting competition, or by the IRS of "entering the business" of the corporation and thereby subjecting itself to tax penalties. (In the latter case, a pension fund or foundation would lose its tax-exempt status, which makes these investors even more wary.)

Thus, since the nominal owners may not exercise real ownership authority, the only means by which they can express their dissatisfaction with the way the company is being run is by selling their stock. And the fear that they will do just that, and expose the company to the threat of a takeover, is what drives managers to sacrifice the com-

pany's long-term interests for the sake of making a good showing in the next quarter.

The takeover threat is heightened by the fact that government taxes corporate profits twice and treats corporate debt as a tax deduction. This makes debt financing attractive. Indeed, as Mr. Jacobs points out, one of the features that drew investors to so-called "junk" bonds was that they purported to combine the return characteristics of an equity security with the tax advantages of a debt. The politicians may have deplored the wave of corporate takeovers and leveraged buyouts that swept Wall Street during the last decade, but they were as much to blame as anyone else.

Predictably, the big government crowd says that the answer to our economic ills is even more intervention. Mr. Jacobs has a better idea. To cure business short-termism, he recommends that our capitalist system be injected with a healthy dose of—well—capitalism. Among other reforms, he proposes that banks be allowed to own stock in non-financial businesses, that we streamline financial services regulations, and that we give shareholders greater freedom to elect and replace directors. The sooner our capitalists are allowed to act like capitalists, he argues, the sooner our managers will be likely to think ten years ahead.

Hal Gordon is a free-lance writer in Bethesda, Maryland.

THE FREEMAN

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FEBRUARY

1993

VOL. 43

NO. 2

Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

President: Hans F. Sennholz, Ph.D.

Editor: John W. Robbins, Ph.D.
Senior Editor: Beth A. Hoffman

Associate

Editors: John Chamberlain
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Edmund A. Opitz
Paul L. Poirot, Ph.D.

Contributing

Editors: Clarence B. Carson, Ph.D.
Thomas J. DiLorenzo, Ph.D.
Robert Higgs, Ph.D.
Ronald Nash, Ph.D.
William H. Peterson, Ph.D.
Richard H. Timberlake, Ph.D.
Lawrence H. White, Ph.D.

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Additional copies of single issues of *The Freeman* are \$2.00. For foreign delivery, a donation of \$35.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

Phone (914) 591-7230
FAX (914) 591-8910

PERSPECTIVE

Ideas

The history of mankind is the history of ideas. For it is ideas, theories, and doctrines that guide human action, determine the ultimate ends men aim at, and the choice of the means employed for the attainment of these ends.

—LUDWIG VON MISES

Money and Education

Study after study has found little link between per-student spending on education and student performance.

For example, school board revenues in the city of Chicago have increased 33 percent in the past four years. The average salary for Chicago teachers is \$38,409, up 33 percent since 1987. Per-student spending in Chicago is the sixth highest among the area's 35 school districts. Yet the average American College Testing Program (ACT) score for the district is 17.0, the worst of any district in the metropolitan area. Sixty-nine percent of parents with children in the Chicago public schools say they would send them to private schools if they could afford it.

In Virginia, per-pupil spending and teachers' salaries in the public schools have risen 55 percent since 1982—and scores on the Scholastic Aptitude Test (SAT) have steadily declined after a slight increase between 1982 and 1985.

The average private school in Virginia spends only \$2,645 per pupil—far less than even the lowest-funded public school district in the state. Yet average SAT scores in the private system are 951, compared with 900 in the public system.

Per-pupil expenditures are not always indicative of how much actually is spent on teaching, however.

In Virginia, 52 cents of every education dollar goes to overhead, administration and other non-instructional expenses.

In Georgia, 50 cents goes for non-instructional expenses.

Non-instructional spending in Georgia in-

creased by 264 percent from 1980 to 1990, while spending on classroom teaching went up by just 96 percent.

—HERITAGE FOUNDATION

Outlawing the Sweet Tooth

Some time ago I had an interesting conversation in the checkout line at our local discount store with a young mother whose five-year-old son was proudly buying two candy bars with his own money. She was purchasing a helmet for him to wear when he rode his bicycle.

"It's the law now, you know," she said.

"Yes," I replied, "but I think it's unfortunate that the state forces parents to do this."

"But it's a good law," she countered. "It's for their own protection."

I agreed that it probably was safer to wear a helmet than not. "But at the same time," I continued, "the issue really isn't whether helmets are a good thing. The issue is who should decide what's good for your children—you or the state."

After a brief pause, I went on somewhat impertinently, "Do you take vitamins?"

Instead of telling me to mind my own business, she politely replied: "No, they're too expensive. But I feed my kids right, so I don't think I have to worry too much. I take them to the doctor, and they get their shots and stuff."

"But what if someone in the Department of Health got hold of a legislator and they decided that, since health care costs are so high, it would be best for everybody to take vitamins as part of a state-wide program of preventive medicine. Or," I continued with the rudeness of a typical zealot, "what if the state decided to outlaw candy bars out of concern for the public's dental health?"

"That's different," she said defensively. "My kids don't get candy very often, and, besides, the state would never do that."

"Don't be too sure," I replied. "If they have the power to force you to put a helmet on your child's head, they have the power to forbid you to feed him candy bars."

I'm wondering if that young mother read the item with a Washington dateline in our local newspaper this morning which began: "The Agriculture Department will retain a limit of six grams of sugar in each ounce of cereal provided to supplement the diets of low-income children and pregnant and breast-feeding women." The justification for this was that "the majority opinion of health and nutrition professionals suggests that the intake of sugar . . . is related to dental cavities and other health problems."

Can the abolition of candy bars be far off?

—WILMA J. MOORE

The Fallacy of Equal Opportunity

We are constantly told, it is true, that there ought to be an equal opportunity for all the children in the United States; therefore, it is said, federal aid ought to be given to backward states. But what shall we say about this business of "equal opportunity"? I will tell you what I say about it: I am entirely opposed to it. One thing is perfectly clear—if all the children in the United States have equal opportunities, no child will have an opportunity that is worth very much. If parents cannot have the great incentive of providing high and special educational advantages for their own children, then we shall have in this country a drab and soul-killing uniformity, and there will be scarcely any opportunity for anyone to get out of the miserable rut.

—J. GRESHAM MACHEN

THE FAILURE OF AMERICAN PUBLIC EDUCATION

by John Hood

Many American critics believe that the major problem with public education today is a lack of focus on results. Students aren't expected to meet high standards, the argument goes, and the *process* of education takes precedence over analyzing education *results* in policy-making circles.

This is a valid argument (as far as it goes). Indeed, it can be taken one important step further. We not only fail to hold individual students accountable for poor performance, we have also failed to hold the entire government-controlled school system accountable for its performance since at least World War II. Public education is itself a failure. Why shouldn't individual students follow its example?

The history of reform efforts in American public education is replete with half-hearted measures, with almost comical misdiagnoses of education problems, with blame-shifting, and with humbug. Everyone is an expert (most have, of course, suffered through the very system they want to reform). At any one time during the course of school reform, an illusion of debate often

obscures a surprising consensus on the heralded "magic bullet" of the decade—be it school centralization or progressive education or preschool education or computerizing the classroom—that will solve America's education problems. These magic bullets always misfire. But instead of changing their weapon, policy-makers simply put another round in the chamber, foolishly believing that the newest fad will succeed despite the failures of its predecessors.

Some critics believe that public education reforms fail because they are compromised or sabotaged by the education lobbies—teacher associations, administrators, and the legislators in their pockets. There is certainly some truth to that explanation, as we shall see. But in many cases, attributing the failure of reform to subversion merely exonerates that reform. Most reform ideas are either irrelevant or destructive of education. They would fail whether organized political interests opposed them or not.

Many conservatives believe that American public education is in poor shape today because of cultural and social trends, most beginning in the 1960s, which destroyed classroom discipline, the moral basis for education, and a national consensus on what students should learn. Again, there is some truth in this proposition, but ultimately it

Mr. Hood is a newspaper columnist, a contributing editor of Reason magazine, and the research director for the John Locke Foundation, a state policy think tank in Raleigh, North Carolina.

fails to explain why American students do not possess the communication and computational skills they need today to succeed in college or in the working world.

Furthermore, many free-market thinkers believe that applying market competition to the public schools will solve many of America's educational problems. I'm sympathetic to this argument, but it ignores the role of government policies other than student assignment to schools, which inhibit school success. When government policy continues to impose rigid personnel rules, bureaucracy, regulations, and a mandate to use education to engineer social or political outcomes, a school cannot successfully impart the needed skills, knowledge, and perspective to its students—whether these students choose to be there or not.

Lastly, the rhetoric of school reform often ignores the crucial role of individual decisions (by students, by parents, by business owners, by educators) in determining educational outcomes. You can lead a horse to water, the old adage goes, but you can't make him drink. It's a folksy way of imparting an important individualist truth. Providing students opportunities at school does not guarantee success if students watch television rather than do their homework—and parents let them. By assuming that any set of reform ideas can magically create a well-educated citizenry, we oversell the role of policy-making. Education requires initiative, a trait notoriously difficult to create or impose.

A Century of Reform

Public education and public-education reform share a common history. There is no past paradise when all students excelled. There is no perfect prototype for public education hidden in history, to be uncovered today and bestowed on a thankful nation. Rather, American public education is best thought of, historically, as mediocre. It was a serviceable system for preparing students for an agrarian or assembly-line world in which only an elite pursued higher education.

Public education in America really began in earnest after the Civil War, when government-funded and -controlled schools supplanted the earlier system of private education. According to the U.S. Department of Education, some 57 percent of the 12 million school-aged Americans in 1870 were enrolled in public elementary or secondary schools, though only about 60 percent of those enrolled attended school on any given day and the average school year was 132 days. By the turn of the century, the percentage of school-aged children attending public schools had risen to 72 percent, with almost 70 percent of enrollees attending on any one of the 150 days in the school year. Most public education still occurred in the early grades—only two percent of the student population were in ninth grade or higher.

By 1989 almost 90 percent of school-aged children attended public schools. Almost all attended class daily (with some important local or regional exceptions) and the average school year had grown to 180 days—still too short, say many modern critics, but a 40 percent increase since Reconstruction. Most students stay in school at least throughout the high-school grades, while a record number are pursuing higher education.

American policy-makers and educators began to create in earnest our centralized, monopolistic public education system at the turn of the century. For example, over a relatively brief period from 1890 to 1910, public schools increased their share of the high-school population from two-thirds to about 90 percent—a proportion of public to private schools which has persisted until the present day. There were a number of factors motivating this change. During the last few decades of the nineteenth century, public education had grown steadily as a primarily locally controlled phenomenon, often emulating or taking over ownership from private schools. Education was still basically focused on learning skills, such as reading or arithmetic, and schools often reflected their communities in very obvious ways.

But by the start of the twentieth century, a number of different groups began to believe that a comprehensive, centrally con-

trolled (at least on the city or state level), and bureaucratic public education system was crucial to America's future. The Progressive movement, for example, sought to replace haphazard government decision-making (such as that provided by political machines or community schools) with a more standardized, "predictable" approach. At the time, they viewed such change as necessary to eliminate corruption and graft. Similarly, the child welfare movement began to press for changes in family life—for replacing child labor and family neglect with public education.

Simultaneously, American business leaders began to see a decentralized, "patchwork" education system as a liability in international competition. U.S. manufacturers, especially, saw the rise of Germany as a significant economic threat and sought to imitate that country's new system of state-run trade schools. In 1905, the National Association of Manufacturers editorialized that "the nation that wins success in competition with other nations must train its youths in the arts of production and distribution." German education, it concluded, was "at once the admiration and fear of all countries." American business, together with the growing labor movement, pressed Congress to dramatically expand federal spending on education, especially for vocational instruction. Also, business and education leaders began to apply new principles of industrial organization to education, such as top-down organization and a "factory-floor" model in which administrators, teachers, and students all had a place in producing a standardized "final product." These leaders created professional bureaucracies to devise and implement policy.

Finally, perhaps the most important boosters of America's new public education system were what we might today call "cultural conservatives." The turn of the century, after all, was a time of tremendous immigration. As more and more immigrants arrived in America, bringing with them a plethora of languages, cultural traditions, and religious beliefs, American political leaders foresaw the potential dangers of

Balkanization. The public education system, once designed primarily to impart skills and knowledge, took on a far more political and social role. It was to provide a common culture and a means of inculcating new Americans with democratic values. Public schools, in other words, were to be a high-pressure "melting pot" to help America avoid the dismal fate of other multi-national polities. American political leaders were all too familiar with the Balkan Wars of the early 1900s, and were intent on avoiding a similar fate.

The Expanding Role of Public Education

By now, you should be experiencing a heavy dose of *déjà vu*. These themes and concerns have continued to dominate American public education until the present day. "Do-gooders" throughout the twentieth century have sought to expand the role of public education in all aspects of what was once family life, such as instilling moral values, providing health and nutrition, fighting delinquency and crime, and protecting children from physical and psychological abuse. Today, they are the primary advocates of Head Start and other supplements to school that intervene in virtually every aspect of a student's life.

Business groups, especially national organizations and corporate magnates, have frequently played a high-profile role in educational affairs during this century, constantly warning of the economic threats posed by international competitors (as in the Sputnik scare of the 1950s or the "competitiveness" debate today) and supporting a professional, centralized approach to public education (in stark contrast to what the same business leaders believed was appropriate in economic policy).

Finally, a host of groups across the political spectrum have looked to public schools as a key means of accomplishing what they consider to be important political or social objectives, such as racial integration, social tolerance, democratic participation, or environmental awareness.

The history of public education reform is a story in which these groups—sometimes in concert and sometimes in opposition to professional educators with their own designs—jockey for position to make their indelible mark on the school policies of the day. Reform efforts have reappeared regularly. In the 1940s, the watchword was “life adjustment education.” Educators, worried about a growing dropout rate and the seemingly frantic pace of post-War technological innovations, sought to help students adjust to a changing world. One example of a class introduced in public schools during this period was entitled “Basic Urges, Wants, and Needs and Making Friends and Keeping Them.” That’s the *1940s*, not the 1960s.

This “promising” development fell victim to the education scare that began when the Soviet Union put its Sputnik satellite into space in 1957. The focus shifted back toward learning basic subjects, though in new and sometimes misguided ways. A flurry of activity followed the Sputnik scare, exemplified by such innovations as new math, open classrooms, programmed instruction, and ungraded schools (which are now making a comeback). During the 1960s, these ideas began to filter throughout the American public education system (all the more susceptible to fads and trends because of its increasingly centralized nature). Some of these notions worked in particular schools, while failing dismally in others—another common result of school reforms generally. In the 1970s, some new ideas were added to this increasingly unwieldy mix, such as the behavioralism craze, whole-language reading instruction, mastery learning, and the spread of standardized testing of both students and teachers.

Finally, during the 1980s the school reform bandwagon got a new set of tires and a fresh coat of paint. Following the publication of *A Nation at Risk* in 1983, governors instituted all sorts of teacher training and testing programs, curriculum changes, and higher performance standards for students. At the same time, states dramatically increased spending on all facets of public education. And President Ronald Reagan,

promising to eliminate the U.S. Education Department during his campaign, actually helped administer a significant outflow of new federal money for public education, mostly directed toward specific programs for needy or minority students.

What Was Gained?

Despite the widespread public impression, felt every five years or so since World War II, that something “new” was happening in public school reform, education statistics tell a different story. They demonstrate very little change in student performance (and most measurable changes were downward). Here’s a brief report card on four decades of public education reform:

Many so-called education experts believe that class size—the ratio of students to teacher—must be reduced to improve learning. We’ve already tried it. From 1955 to 1991, the average pupil-teacher ratio in U.S. public schools dropped by 40 percent.

These experts also proclaim that lack of funding hamstrings reform, and that the 1980s were a particularly bad time for school finances. Wrong again. Annual expenditures per pupil in U.S. public schools exploded by about 350 percent in real dollars from 1950 (\$1,189) to 1991 (\$5,237). In only two years during this 40-year period did spending fall: 1980 and 1981. Spending grew by about a third in real terms from 1981 to 1991.

The average salary of public school teachers rose 45 percent in real terms from 1960 (the first year data are available) to 1991. This increase masks a more variable trend. Real salaries rose until 1974, when they began to level off and even decline. The average salary reached a trough of \$27,436 in 1982, after which it rose to an all-time high of \$33,015 in 1991. Instructional staff in public schools generally saw their earnings increase faster than the average full-time employee—from 1950 to 1989 the ratio of instructional-staff salary to the average full-time salary in the U.S. increased by 22 percent (although it sank from 1972 to 1980).

Student performance has hardly kept

pace with the dramatic increases in resources devoted to public education. While the percentage of students aged 17 at the beginning of the school year who graduated from high school rose 30 percent from 1950 to 1964, it has leveled off since then. In fact, the 1991 percentage is lower than the 1969 peak of 77.1 percent.

Evidence from the National Assessment of Educational Progress and other performance measures shows how poorly served America's public school students really are. Just five percent of 17-year-old high school students in 1988 could read well enough to understand and use information found in technical materials, literary essays, historical documents, and college-level texts. This percentage has been falling since 1971.

Average Scholastic Aptitude Test scores fell 41 points between 1972 and 1991. Apologists for public education argue that such factors as the percentage of minority students taking the SAT can explain this drop. Not true. Scores for whites have dropped. And the number of kids scoring over 600 on the verbal part of the SAT has fallen by 37 percent since 1972, so the overall decline can't be blamed merely on mediocre students "watering down" the results.

Only six percent of 11th graders in 1986 could solve multi-step math problems and use basic algebra. Sixty percent did not know why *The Federalist* was written, 75 percent didn't know when Lincoln was president, and one in five knew what Reconstruction was.

Another measure of the failure of public education is that almost all institutions of higher education now provide remedial instruction to some of their students. The Southern Regional Education Board surveyed its members in 1986 and found that 60 percent said at least a third of their students needed remedial help. Surveying this evidence of failure among college-bound students, former Reagan administration official Chester E. Finn, Jr., wrote that "surely college ought to transport one's intellect well beyond factual knowledge and cultural literacy. But it's hard to add a second story to a house that lacks a solid foundation."

Why American Public Education Fails

There are several characteristics of government institutions which, common to virtually all American public schools, inhibit the successful operation of schools. These include:

Rigid personnel rules and regulations. Those schools with little to no interference from outside supervisors or regulators on hiring and firing decisions tend to be the most effective schools as measured by student performance. John Chubb of the Brookings Institution and Terry Moe of Stanford University provided a good explanation for this in their 1990 book *Politics, Markets and America's Schools*:

Among the reasons why direct external control may interfere with the development of an effective school, perhaps the most important is the potentially debilitating influence of external control over personnel. If principals have little or no control over who teaches in their schools, they are likely to be saddled with a number of teachers, perhaps even many teachers, whom they regard as bad fits. In an organization that works best through shared decision-making and delegated authority, a staff that is in conflict with the leader and with itself is a serious problem . . . such conflict may be a school's greatest organizational problem. Personnel policies that promote such conflict may be a school's greatest burden.

Tenure is not the only barrier to successful school organization. School organizations that call for greater differentiation among teachers and pay some teachers more than others on the basis of performance or drawing power rather than seniority clash with government-mandated salary schedules. Positions and salary levels are decided by the state without any relationship to a particular school's situation. To foster successful reorganization of schools and more effective and efficient use of teachers, school systems or even individual schools must be able to employ their teach-

ing staff as they see fit and pay them accordingly. If a school has a hard time finding a good science teacher (not a hypothetical situation in many districts) it should be able to set the salary for that position at a level which will attract qualified persons.

Uniform salary schedules were originally enacted to address racial and social inequities among teachers, not as a "better way" of organizing the teaching force. These inequities have largely been addressed and can be prevented by other means. But like so many governmental policies, uniform salary schedules have outlived their usefulness. Reorganization might involve paying teachers of one subject more than teachers of another subject, or paying a good teacher with ten years' experience more than a mediocre teacher with 15 years' experience. As education researcher Denis Doyle of the Hudson Institute wrote: "There is no mystery as to how to find and retain qualified teachers of mathematics or the sciences. Pay them what the market demands, provide them with benefits that are competitive, and create a work environment in which they can derive genuine professional satisfaction. Pay differentials are the answer."

And yet mediocre teachers, who dominate teacher unions and the education lobbyists in Washington and the state capitals, continue to resist this basic change.

A civil service system. A related set of problems for American public education stems from the early twentieth-century view that public services can and should be delivered by a regimented, compartmentalized civil service. All indications are that the teaching profession will best be organized in the future as firms providing specific services to schools, rather than as a unionized set of government employees with tenure and little performance-based accountability. They should, in other words, come to resemble law firms. In teaching firms, more senior partners would enjoy tremendous name recognition and respect, attracting clients for the firms while imparting their proven teaching strategies to junior partners and associates. Can you imagine such a

system evolving within today's public education system?

Monopoly. It's not an attack on teachers to suggest that they, like all other workers, respond to incentives. When a school enjoys monopoly control over its students, the incentive to produce successful students is lacking. When student performance doesn't correlate with reward on the school level, individual teachers see no need to go the extra mile to help students when the teacher next door receives the same rewards for merely babysitting. And without the pressures of competition in education, parents are bothersome nuisances rather than clients who might potentially go elsewhere if not satisfied.

Centralized decision-making. When decisions on such issues as the makeup of the history curriculum or the daily school schedule is mandated from above, school leaders lose initiative and school policies become disconnected with the students and teachers they supposedly exist to serve. At a time when American industry is abandoning the factory model and top-down management as hopelessly irrelevant to modern enterprises, so too must schools seek better lines of communication and a more effective way to make decisions about everyday problems.

Tinkering around the edges of the public school system might reduce the impact of one or two of these government characteristics, but they'll never be eliminated without substantially limiting government interference in education.

There is much disagreement about whether these characteristics have become more pronounced over the last few decades. But the trend lines aren't the point. In a world in which the returns on education dropped off fairly rapidly in the upper grades and college—in other words, when a junior-high school education was enough to obtain gainful employment and function in society—America could basically afford to have an inefficient, bureaucratized, and ineffective system of public education. When students fell through the cracks, they had a fairly soft landing. Today, however, tech-

nological innovation and a host of other factors have dramatically increased the returns on education. All students must be able to compute, communicate, and think to make their way in an increasingly complex and confusing world.

The Triumph of Politics

What *has* clearly been on the rise in recent decades is the use of America's public schools for the purpose of engineering some social outcome deemed desirable by political leaders. This is an unavoidable, and perhaps insurmountable, failing of government-run education.

Both liberal do-gooders and conservative culture warriors look to public education to achieve public goods. In the 1950s and 1960s, a national focus on the problem of racial segregation helped steer education policy away from questions of excellence to questions of equity and access. In the 1970s, activists bent on such diverse causes as environmentalism, humanism, spiritualism, and even socialism began to target the school curriculum. They produced all sorts of programs, handbooks, textbooks, and other materials, and used political influence to have these adopted as part of the school day in many jurisdictions. Meanwhile, America's developmental psychologists and early childhood experts, deep in their environmentalist (in the sense of non-genetic) phase, got the attention of educators and political leaders. They argued that formal education should be supplemented with special counseling and self-esteem programs, that formal education should be extended into the preschool years, and that the federal government should be involved in funding these early-intervention and compensatory education programs. Policy-makers believed them. So we now have Chapter 1, Head Start, in-school counselors, and other "innovations," the usefulness of which is now in great doubt.

When every call for fundamental change in American education is rebutted not by

arguments about student achievement but by arguments focusing on race, class, social mixing, and other social concerns, it is difficult to imagine real progress. When teachers spend much of their day filling out forms, teaching quasi-academic subjects mandated from above, and boosting student self-esteem (as contrasted with self-respect, which is earned rather than worked up), learning is difficult if not impossible.

While government is wholly unsuited to teach America's students because of all the characteristics listed above, private schools offer an example of what American education could be. After trending downward for decades, private school enrollment increased during the 1980s. This year, private schools accounted for about 12 percent of America's students. The fastest-growing segment of the private school market is the non-religious school, but Catholic and other parochial schools continue to supply excellent education opportunities to poor children and minorities both in inner-cities and in rural areas. Studies show that private schools produce better students than public schools do, even when you take into account for the selectivity of some private schools.

It's true, as some public-education boosters charge, that even private school students have shown some declines in achievement over the past half-century—but that proves only that other influences in society besides schooling can have a significant impact on student performance. Private schools provide a better education than public schools even though American families generally do not sufficiently value education and students often lack initiative and concentration.

By any reasonable measure, America's monopolistic, bureaucratic, over-regulated system of public schools is woefully unprepared to meet the challenges of the twenty-first century. Political, business, and education leaders continue to talk about "reforming" the current public education system. They should, instead, be discussing how to replace it. □

EDUCATIONAL VOUCHERS: THE DOUBLE TAX

by Gary North

Last year the Bush administration, responding to pressure for choice in education, proposed the voucher system. "Specifically, the president's proposal would give a \$1,000 scholarship to every child of a middle- or low-income family in a participating school district. Parents must be permitted to use the scholarship at any lawfully operated school." So wrote Lamar Alexander, President Bush's Secretary of Education, in the conservative newspaper *Washington Times* (August 30, 1992).

Notice two key elements of the recommended legislation. First, there will be no vouchers for the rich, however "rich" may be defined by the statute or in subsequent legislation. When it comes to vouchers, all families are equal, but some are more equal than others. Every family will be entitled to participate, since tax money is paying for it—every family except those families that might be willing and able to buy such services apart from the voucher system. When the subsidies force up the price of private education, the way Medicare has forced up the price of American medicine, the rich or the scrupulous will have to look out for themselves. This is a compulsory wealth-redistribution program. It is not politically neutral. Neither is education.

Second, pay close attention to the key words: *lawfully operated schools*. What

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Dr. North is president of The Institute for Christian Economics in Tyler, Texas.

does "lawfully operated" mean? It means lawfully operated in terms of local, state, and above all, federal rules and regulations. It means that every private school that accepts a single voucher payment from one student will be as subject to federal bureaucrats as any college or university is if it enrolls a student who has received federal scholarship aid. How many Grove City Colleges are there? How many private schools will turn away students who come with government checks in hand? Not many.

There is a rule in all things associated with state funding. Anyone who ignores this rule is either naive or suicidal. Here is the rule: *If you take the state's nickel, you accept the state's noose*. You may prefer an older version: "If you take the queen's shilling, you do the queen's bidding." In short, you do not get something for nothing.

The overriding economic question regarding educational vouchers is this one: "At what price will parents sell their birthright, namely, control over their children's education?" A subordinate question is this one: "At what price will private school administrators sell their ability to deal with parents?" Sadly, we can be fairly sure of the answer: a low price.

The More Things Change . . .

The amazing fact is that the education voucher issue has changed very little since *The Freeman* published an earlier version of

this essay in May 1976. The political conservatives are still trying to "clean up the public schools" by introducing competition through vouchers. The Christian school movement is still confident that vouchers will help them financially but without any negative side effects, such as the introduction of controls by the state. The public school teacher unions are still totally opposed to vouchers because vouchers will create "elite schools"—supposedly a very undemocratic thing to allow, at least until it is time to choose a college for your children.

Some things have changed, however. The public schools cost more to operate per child enrolled, even discounting for price inflation. Public schools are far less safe. Achievement scores have dropped. And the voters are finally aware of the extent of the decline.

What I wrote in 1976 is equally true today: the fundamental issue is the locus of sovereignty in education. We need to ask: Who is responsible for the education of children—parents, churches, or the state? My answer has not changed: parents. My political analysis has not changed: any element of coercion by the state, including financing, shifts the locus of sovereignty away from parents toward the state. My economic analysis also has not changed: to discover who is operationally sovereign over education in any society, follow the money.

We are continually bombarded by newspaper and magazine headlines informing us of the continuing "crisis in education," which actually is a crisis in government-operated education. Virtually all the available data reveal that the crisis is accelerating. Inner-city schools have become literal battlefields between rival gangs, between teachers and students, between administrators and increasingly vociferous faculty unions, and most important, between outraged parents and the whole system. Yet the crisis is in no way confined to inner-city schools. The suburban schools of the white middle class are burdened with the multiple plagues of student boredom, drug addiction, and rapidly increasing alcoholism. Twenty-five years of falling scores on the college

entrance examination reveal the steady nature of the erosion, despite the acceleration of costs associated with the public schools.

Educators cannot bring themselves to admit that the crisis is anything more than a temporary aberration—an aberration from the "normal" which itself was dead long before today's administrators were born. The theories multiply, the explanations proliferate, and the crisis gets worse. What the last decade has brought is an understanding on the part of the public and a minority of government school employees (untenured, generally) that there is no answer.

Like the sinking ship which finally takes on too much water, the government education system is irretrievable. It will be useful in the future only as scrap. But what about those millions of students who will go through the system before it finally sinks? Will they too become useful only as scrap?

Parents are becoming aware of "the discussion syndrome." The endless discussions in half-empty halls between a few parents and local administrators have not altered anything. The teacher conferences, the administrator conferences, the PTA conferences, and all the other conferences have proved useful only for the cataloguing of the unsolved and increasingly unsolvable problems connected with government education. Solutions have not emerged from conferences—or at least no solutions acceptable to parents, administrators, school boards, students, state legislators, and an angry group of levy-rejecting voters. If there are no solutions, why pay higher taxes? This is the reasoning of the voters. The reasoning of the school administrators is different. They only want to discover a new source of tax money that will be acceptable to the voters, or better yet, that will not be subject to public elections at all.

The Locus of Sovereignty

The ultimate source of the educational crisis stems from an error in first principles. Once committed to this error, the public education system has floundered repeatedly. To locate the source of the error, men

need only ask themselves a single question: Who is responsible for the education of a child? The answers, of course, are varied: the parents, the church, the civil government, or a combination of the three.

The conflicts in education are in fact conflicts over a much more fundamental issue: the locus of sovereignty, and hence, the locus of personal responsibility. The person or institution which possesses sovereignty must be the one which takes on the responsibility. By affirming the legitimacy of tax-supported education, voters have attempted to transfer their responsibilities for the education of their children to another agency, the state. Yet at the same time, they affirm their own sovereignty over the content and structure of the educational system. That they have lost almost every battle in their war with tenured, state-supported educational bureaucrats is the direct result of the public's abdication of personal responsibility, family by family, for the education of their children. The war was lost on the day that parents, as voters, decided to transfer the financial responsibilities of educating their own children to other members of the body politic. While Horace Mann can be regarded as the general who was victorious in the 1830s and 1840s over private education in Massachusetts, he was only conducting mopping-up operations. The end had been determined two centuries earlier when the Puritans of Massachusetts affirmed the principle of compulsory local education, with subsidies to poor families.

Any system of education must ultimately be the reflection of, and product of, the philosophical principles of those who finance the system. The decision about the financing of any institution inescapably determines the shape and content of that institution. Modern men, being secular, now recognize this fact when applied to the institution of the church. They see that a state-supported church is antithetical to the principle of freedom of conscience. They see, as do religious zealots like Roger Williams, that state-financed churches become the tools of the state which supplies the funds. But modern men do not see that this

strict relationship between financing and operations applies *a fortiori* to government school systems. Somehow, they think, education is corrupted when churches are involved, but not so when governments are involved. Like the established churchmen of two centuries ago, today's priests and parishioners of the public schools refuse to recognize the nature of their relationship to the state.

Who Pays?

Do men finance their children's educations directly, through the personal financial sacrifice of the family unit? If so, then the family is sovereign over education. The school is then merely an extension of the family. The family makes use of the efficiencies associated with the division of labor. Parents hire professional educators to train their children, but those who are hired are paid to adapt their educational skills to the needs of the families that are financing the education. This can be done directly, through family-controlled school boards, but it can also be accomplished through the indirect means of the market. The family hires the tutor, or the school, in the same way that it hires any other servant. The parents are directly responsible for their children, and the selection of a school is an act of responsible stewardship. The family has not delegated the responsibility of educating the children to anyone else. It controls the purse strings—the ultimate affirmation of earthly sovereignty.

The more distant the source of the school's funds from the family, the less control the family has over the selection of the teachers and equipment. If the church finances the education of its members' children, then a layer of institutional bureaucracy is interposed between parents and teachers. This may be agreeable to many parents, but if church members other than the parents are expected to finance the school (as is the case in most instances), then they too have a legitimate right to determine school policies.

The bureaucrats gain their greatest con-

trol in tax-supported systems. Sovereignty is so diluted at the level of the individual citizen that the expertise of the professional and tenured bureaucrats is overwhelmingly powerful. But their power is not tied to a personal relationship with the children (as it is with a parent), nor is it linked to a financial dependence on the parents, nor is it even linked to a community of shared values, as in the case of a church school. Their power stems from the unwillingness of legislators to turn off the funds. And the legislators' unwillingness to interfere stems from two primary facts of political life: (1) the experts have an aura of invincibility about them, plus tenure; and (2) the voters still believe in the establishment of the public school church. It is easier to give speeches than to take action, so legislators give speeches. Most of them are re-elected most of the time, so the policy pays off in the coin of the political realm: votes.

The crisis of education is therefore a crisis in the realm of values, with the values of the parents coming into conflict with the values, philosophies, and incompetence of those in control of the tax-supported educational system. If the parents continue to capitulate to the philosophy of public education, then they will continue to be defeated in their attempts to gain the kind of education they want for their children. There is only one way that all parents can gain such satisfaction: they must pay for the education of their children. They can earn the money or they can convince some third party to give them or their children the necessary funds on a voluntary basis, but the parents must pay. If they want to get what they pay for, they must pay directly, rather than paying through the coercive means of state taxation.

Until men are willing to cut off the political funding of the established church of America, they will see the educational crisis escalate. The visible sign of sovereignty is the ability to pay for a service and the willingness to do so. Nothing short of this will suffice to solve the crisis in the government schools, for the educational crisis is ultimately a conflict over sovereignty. He who pays with his own funds will win; he

who continues to pay by voting cannot possibly win.

Pseudo-Market Schemes

The Bush administration's voucher plan was inspired by a suggestion made by Professor Milton Friedman, one of the most technically proficient economists in America. As a defender of the principle of market efficiency, he has been able to gain many adherents within the economics profession. He has been especially successful in challenging the inefficiencies of the federal regulatory commissions. One of his most popular and widely read books, *Capitalism and Freedom* (1962), was a landmark of the 1960s, for it was popularly written by a professional economist who had long before established his technical proficiency before his peers. Some of the policy recommendations of the book, such as the abolition of occupational licensure by civil governments, have not been taken seriously by most economists and certainly not by professionals who now hold occupational licenses from the civil government. Yet from the point of view of those who are convinced of the technical superiority of the free market over governmental regulation, it is this kind of uncompromising stand taken by Dr. Friedman which is most valuable in the defense of freedom, not to mention capitalism.

The problem that many free market advocates have with some of Dr. Friedman's policy recommendations is that too often he spends many pages in devising ingenious schemes that would make government programs more efficient and, Dr. Friedman fervently hopes, less burdensome to the taxpayers, businessmen, and innocent citizens of the land. These policy recommendations have one feature in common: they are pseudo-market devices. They would create a kind of shadow market—"almost a free market"—that could provide success indicators analogous to those provided by a truly free market. In doing so, he argues, these pseudo-market alterations would make government more responsive to the needs of citizens.

The Voucher Scheme

Perhaps the most interesting of all of the pseudo-market policy recommendations promoted by Dr. Friedman is his educational voucher plan. Under such a school financing system, each family would receive one voucher for each school-age child in the family. The voucher would be redeemable in money upon presentation by a private school to the state or local government. Its value would be equal to the average per student cost of education in the district. (This figure, by the way, is seldom even calculated by school boards, for obvious political and public relations reasons, and when it is calculated, it virtually never includes such crucial items as the interest which the government might have earned had it sold off the school buildings and invested the money elsewhere, such as in a bank which would loan the purchase money to a local profit-making school.) The parents could then send their students to a public school or to a private school. If the cost of tuition were higher in the private school than the value of the voucher, the parents could make up the difference by paying more money.

The advantages of this scheme, argue the supporters of school vouchers, would be considerable. The parents gain back their lost sovereignty. They decide where the children will attend school. The public schools would be forced to compete for students, thereby increasing their efficiency. Private schools would spring up everywhere in response to the existence of vouchers. The diversity of educational opportunities would be fostered. The costs of administration would be very low, we are assured.

There is no doubt that the logic of the voucher program is initially impressive. Parents would seem to have far more power in selecting educational alternatives under the voucher system. The conformity of bureaucratic education would be challenged by a new diversity. It would save money and increase freedom. What more could we ask for? In any case, what more can we expect

in an age of wealth redistribution? This is always the key argument in favor of the creation of pseudo-market schemes: no way exists to re-establish a truly free market, so this is the best we can hope for.

The Locus of Sovereignty Revisited

It all sounds so plausible, yet it overlooks the fundamental problem of voucher-financed education. The question must still be asked: Where is the locus of sovereignty? And the answer must still be the same: the civil government. The voucher program violates the most important principle of education: parents are responsible for financing their children's education. He who is responsible is also legally sovereign, and vice versa. Operationally, the source of the funding determines the locus of sovereignty. The goal of all those who would defend market arrangements must be to determine the *moral* locus of sovereignty in any particular circumstance, and then see to it that the sovereign agent be made legally and economically responsible for the exercise of his power. By failing to demand that parents be the source of funding for their own children's education, the promoters of the voucher scheme have abdicated their responsibility in extending the principles of voluntarism and personal responsibility.

In the voucher system, the source of the funding is still the taxation system. The financing is based on the principle that it is legitimate to use political power in order to grant benefits to one group at the expense of another. The principle of coercion is still dominant. The dominant principle, over time, will thwart the elements of voluntarism in any pseudo-market scheme. The state is still the operational sovereign over education, simply because the threat of violence, which is the state's legal monopoly, is the source of the funds for education.

There is no doubt that Dr. Friedman recognizes this fact, yet he does not emphasize it. He believes that the technical alteration of the way in which coercively collected taxes are redistributed can overcome

the sovereignty of the state. He acknowledges that the authority of the parents in a voucher scheme cannot be absolute. The state-financed "educational diversity" under a voucher system is a diversity operating within government-established guidelines. Money spent by the state can never be on a "no strings attached" basis. There is always more demand for government money than there is money available to meet the demand (unless the purchasing power of government money falls to zero). Those who are legally responsible for the distribution of tax money must have legal guidelines or else rampant waste and dishonesty will instantly appear, and the treasury will be emptied overnight. This is why statist education must be bureaucratic education, with guidelines imposed from above, since the money comes from the state.

There is no escape from the rules of bureaucracy in a voucher system. Friedman acknowledges this fact: "Governments could require a minimum level of schooling financed by giving parents vouchers redeemable for a specified maximum sum per child per year if spent on 'approved' educational services. Parents would then be free to spend this sum and any additional sum they themselves provided on purchasing educational services from an 'approved' institution of their own choice."

The key word, of course, is "approved." Why Dr. Friedman has chosen to put the word in quotes is not altogether clear. Does he mean "kind of approved"? Certainly, he is wise enough to know that when the state bureaucrats approve or disapprove, they do not hide their actions in quotation marks. They simply decide. They decide in terms of criteria appropriate to the continued functioning of the statist educational bureaucracy. As Dr. Friedman wrote: "Any subsidy should be granted to individuals to be spent at institutions of their own choosing, provided only that the schooling is of a kind that is desired to subsidize." *Desired by whom* to subsidize? The parents? Hardly; they are the ones to be dictated to, not dictated by. The parents will be told where they can freely spend their vouchers, and

they have to that degree lost their sovereignty. The state provides the funds through its monopoly of coercion; the state shall determine, coercively, how and where those funds are to be spent.

Controlling the Alternatives

What the decades-long erosion of the government school system has provided is a long list of reasons why it would be profitable for each family to remove its children from the subsidized schools. A small but growing minority of parents is doing just that. The state bureaucrats are legally prohibited from providing sectarian schools, ideologically prohibited from providing free market education, and apparently unable to provide competent instruction. They see their task as ensuring standards, which means ensuring educational conformity. The rise of an independent school system is a threat to public school administrators. They are as hostile to alternative educational programs as the postal system's administrators are to United Parcel Service or anyone else carrying first-class mail.

What we are witnessing is a conflict over sovereignty. Who is responsible for the training of children, the state or the parents? The lines are being drawn far more sharply today than at any other time in this nation's history. Pseudo-market schemes cannot solve questions of ultimate sovereignty, or at least they cannot solve them to the benefit of free market institutions.

State schools rest on a whole series of erroneous assumptions. First, that the state is ultimately sovereign in the field of education—the quasi-parent of every child. Second, that the state schools can teach children totally neutral values—universally acceptable principles that all education must provide. Third, that it is the moral as well as legal obligation of taxpayers to finance the school system. Fourth, that the professional, tenured, and civil-service-protected officials of the educational monopoly are the people best prepared to operate the educational system.

The voucher system challenges directly only the last of these assumptions, and then only superficially. After all, state schools will still be permitted to operate. The voucher system necessarily requires the *licensing of schools*. For those who favor bureaucratic licensing of alternative educational systems by the state bureaucrats whose jobs are threatened by alternative educational systems, I recommend chapter nine of Dr. Friedman's *Capitalism and Freedom*: the chapter on occupational licensing.

As private schools continue to replace the disintegrating government schools at the primary and secondary levels, the state's educational bureaucrats will have to take decisive action to protect their monopoly. One way to accomplish this is to refuse to certify any more schools. (I am assuming that outright abolition will not be tolerated politically or in the courts.) This approach may work for a time, since parents are concerned about quality schools. By some peculiar twist of logic, the parents of private school children somehow believe that the state licensing boards are competent to certify educational performance, despite the fact that the state schools, which the boards have authorized, are anathema to the parents in question.

Private school administrators, who come to parents in the name of a superior educational program, are equally hypnotized by the boards of certification. The most intelligent response is that made by Robert Thoburn, owner of the profit-making Fairfax Christian School of Fairfax, Virginia: "If the bureaucrats want me to certify their schools, they can come to me and I'll look over their programs. That's my view of certification."

If the certification ploy does not work, then the last hope of state educational bureaucrats is the voucher system. If parents continue to send their children to uncertified schools, then the state must find a way to convince private school administrators that they must register with the state and conform their programs to state educational standards. The voucher system is the most

logical means of achieving this goal. Vouchers will create a second, pseudo-free market school system, using "free" in both senses: independent and without cost to the users. The state-operated schools will then compete with the state-licensed schools. Almost no third alternative will be economically possible.

Taxed and Taxed Again

Those parents who want their children out of the government-operated schools (which their taxes support) will also be paying for the operation of voucher-supported, state-licensed schools. These parents must turn down the first subsidy (free public education in a government school), turn down a second subsidy (vouchers for government-licensed schools), and come up with after-tax income to finance their children's education in a truly independent school.

This is assuming they can find such a school. To do so, they must locate other parents equally committed religiously and ideologically to the principle of independent education, and also financially able to put their preference into action. How many concerned parents will do this? How many private school administrators will be able to operate a school while denying admittance to those who would pay with vouchers? How many of these schools with total commitment to private education will there be? I can tell you: very, very few.

Not until the blight so obvious in the government-operated schools has spread to the government-licensed voucher schools will parents even consider bearing the second tax (vouchers) and find money to pay for an independent education. In short, vouchers are the most promising tool for the suppression of independent private education now at the disposal of state educational bureaucrats.

What will the price be? What may not have been clear to Dr. Friedman back in the early 1960s is clear to us now. We will have federal guidelines operating in every voucher-using school—equal opportunity policies, quota systems of every kind, teacher

hiring and firing policies, racially and religiously mixed student bodies. There will be a whole army of federal bureaucrats, not to mention state bureaucrats, policing every "private" school. The so-called private educational system will be swallowed up in a mountain of red tape. How much imagination does it take to see what is coming? Isn't it sufficient to look at what our independent private colleges are now going through? Can you imagine the kinds of controls in store for schools that are set up to permit an escape hatch for the crumbling state educational monopoly—the most horrendous visible failure of socialism in America?

Conclusion

The state is not about to adopt pseudo-market schemes unless the bureaucrats believe that the adoption of the scheme will remove competition from consistently independent private competitors. The state is not going to consider the latest pseudo-market proposal to come out of the graduate seminars of the pro-free market professors unless the scheme can be rewritten to enhance the sovereignty, power, and efficiency of those who would suppress the independence of private men. This should be the lesson of the age: statist ideologues and their tenured hirelings do not commit suicide voluntarily. They do not abandon the ideology of the control economy simply because some new scheme promises to make the government benign or reduce the tax burden of the public.

Pseudo-market schemes, promoted in the name of the free market, are adopted by the enemies of freedom for very specific purposes: to reduce the zones of freedom. Those who believe in increasing government power will adopt pseudo-market schemes only when they are convinced that the free market is too great a threat to pure, uncompromising bureaucratic failure.

The state may adopt vouchers for education on an experimental basis, in order to test the scheme. If it does foster independent education, vouchers will be scrapped. But they will not have to be scrapped.

Vouchers may well become a permanent fixture of our government education system. If so, it will be for a reason: the school voucher offers vast new powers of control over a vibrant and growing independent school system that threatens to undercut government schools.

The great threat to freedom from school vouchers is that they strike at the heart of society: the family. As a pseudo-market device, they promise to be remarkably successful in destroying a tiny but important pure free market development. Private school administrators and most of the private colleges have been eager to receive federal aid; only a minority of a minority have held out against the lure of federal money. The lure of vouchers almost certainly will prove too great a temptation for thousands of our struggling parents and private schools. It may take another generation to recover from the defection of these schools, should that defection have an opportunity to manifest itself.

If vouchers are to be stopped, they will have to be stopped by parents who recognize the double taxation nature of the voucher scheme. Those who truly want independent schools and are willing to pay for them must not seek after vouchers, for vouchers are the very seal of doom for the independent school system. Pseudo-market schemes generally lead to anti-market results. Good results stem from good principles. Vouchers are an intellectual, moral, and educational disaster. They will not work to expand the realm of freedom. □

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EDUCATION IN AMERICA

by Susan Alder

Heritors of the Reformation, the first settlers came to America with a firm belief in the necessity and desirability of education. The necessity was rooted in their belief in the “priesthood of all believers.” The privilege of communion with and intimate access to God, which came through the reading of the Word and prayer, no longer remained the right of a priestly hierarchy but was open to all who believed. The responsibility of knowing God and thinking his thoughts after him required a thorough knowledge of his Holy Word, the Bible. This mandated that believers be literate; it also mandated that education be part of evangelism.

Parents bore the responsibility for seeing that children were literate, educated in the faith, and able to provide for themselves in society. This concept was rooted in the Biblical teaching that the family—not the church and not civil government—was created by God as the primary governing body in society. Well-governed families produced well-ordered societies. Thus, the family was the guardian of a society’s character and culture.

Pastors and elders in the church were to encourage parents in their work and supplement it as necessary by instructing the parents or by direct involvement with the

children when, for example, the pastor fulfilled his catechizing responsibilities or the parents asked the pastor to tutor the child. Often when several parents wanted the pastor to tutor their children, the pastor would instruct the children in a group instead of individually, thus forming a type of “school.”

If parents were derelict in their duties, they opened themselves up to church—not civil—discipline, the goal of which would be that the parents fulfill their responsibilities as parents. Parents did not even consider that the civil government in any way had the responsibility or should assume the responsibility of providing for the education of children.

Even in the early years of the colonies, parents were able to choose from a variety of means to round out their children’s education—private tutors (usually a minister), private schools, church schools, and apprenticeships. Private colleges were founded to provide higher education. Academies sprang up in larger towns to prepare students for college.

A notable exception to parental education came in the Massachusetts colony. A law passed by the General Court of the Massachusetts colony in 1642 required civil authorities to see that families educate children, servants, and apprentices. In 1647, the Massachusetts colony enacted a School Code which required appointment of a

Susan Alder is co-author of Perot: The Populist Appeal of Strong-Man Politics.

teacher in every township of 50 households. The teacher's salary was to be paid by parents or citizens of the community through a tax. Townships of 100 families were to set up grammar schools supported by the town.

Educator Samuel Blumenfeld says of these compulsory laws, "They were the ordinances of a religious community upholding the orthodoxy of its doctrines and providing for its future leadership. None of the other English colonies, with the exception of Connecticut which had been settled by Massachusetts Calvinists, enacted such education laws."¹ Blumenfeld also points out that the Bible commonwealth, peculiar to the Massachusetts colony, "lasted no more than sixty years."² With its demise and a relaxation of compliance with the old laws, private education boomed in the Massachusetts colony so that by 1720 private schools outnumbered public ones in Boston.

In 1636, John Cotton of Boston willed half of his property to establish a school for disadvantaged children and orphans. Thus the Boston Latin School became the first school established in America outside the home.³ Educational endeavors in the colonies also included mission work. In 1649, the Corporation for the Propagation of the Gospel in New England reported 101 Indian missions in New England.⁴ There were other mission agencies and missionaries active at this time as well.

Education at this time was not only Christian in that it included instruction in articles of Christian faith, but Christian also in that it saw all reality defined by precepts and principles laid out in the Bible. As historian Clinton Rossiter has said, "The colonial mind was thoroughly Christian in its approach to education, philosophy, and social theory...."⁵

The Great Awakening

Religious revivals occurred sporadically in the American colonies in the early 1700s. These culminated in The Great Awakening which spread from Nova Scotia to Georgia in the 1740s-1760s, touching the lives of the

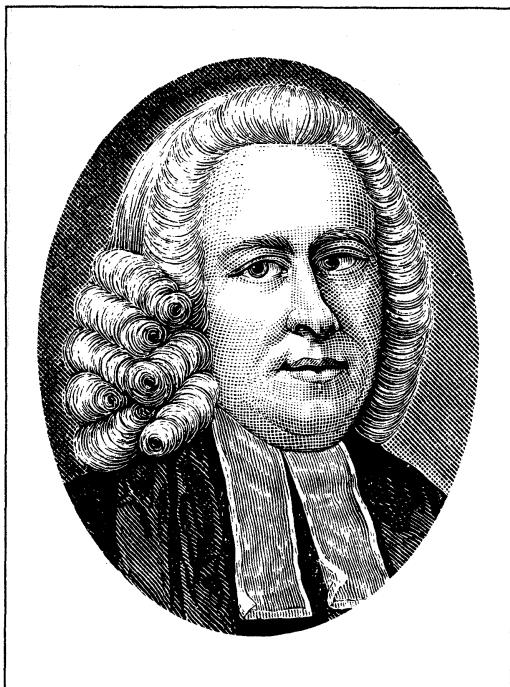
majority of colonists. The great preacher of the Awakening was George Whitefield. Prior to Whitefield's coming, traveling pastors spoke to congregations only at the invitation of their pastor. Whitefield bypassed this convention and preached in the open air to anyone who would listen. He insisted on a personal experience of salvation, and urged the laity to become involved in personal service to God. He insisted on an equality among believers and encouraged his listeners to question leadership if their teaching did not measure up to the truths of Scripture.

Since the revival took place wherever listeners could be gathered, no particular church had a claim to the converts. In fact, this revival brought converts into every fold. People who had seen God's hand at work apart from denominational affiliation became more accepting of each other—in spite of religious controversies that arose during this time. Historians have pointed to this time of revival as the beginning of a Protestant consensus among Americans.

The number of lay ministries increased. Many were formed by people from different denominational backgrounds who found they could work together in a common cause without a common theology. Among the ministries were schools for Indians, Negroes, and children of indentured servants.⁶ Likewise, more colleges were formed to handle the swell of young men going into the ministry as a result of the revival. Presbyterians were especially active at this time establishing schools like William Tennent's "Log College" (1727).⁷

According to one historian, "After 1750, a real flourishing of independent educational efforts seems to have swept through the colonies. New secondary academies, a proliferation of free lance teachers in the towns, often young ministers, sometimes formerly indentured and without congregations, began to spread a new educational ethos."⁸

The number of schools continued to grow in pre-revolutionary America. By far, the majority were maintained by the churches and either provided educational opportunities for children of the church or for the



*George Whitefield
(1714-1770)*

poor. The number of charity schools increased in proportion to the influx of immigrants. Consequently, charity schools were more numerous in the northern colonies.

Education in the South was completely private until 1730, and by 1776, only five public schools existed in the South.⁹ Educational opportunities were provided for poor children through apprenticeship programs. Tutors were popular among wealthy planters. Plantation schoolhouses were common where children, not only of the owner, but neighborhood children came to learn.

In 1783, Noah Webster wrote his "Blue-backed Speller" which taught principles of religion and morals in addition to language. Authors Beliles and McDowell comment that the "Blue-backed Speller," which sold over 100 million copies in a century, "did more for American education than any other single book, except the Bible."¹⁰

Secondary schools designed especially to prepare young men for college dotted the colonies. However, tutors were often used in private homes to prepare the college bound. Nine colleges were in service on the

eve of the American Revolution: Harvard, Yale, William and Mary, King's at New York, the College of New Jersey at Princeton, the College of Philadelphia, Rhode Island College, Queen's, and Dartmouth.¹¹

Literacy abounded in the colonies prior to and after the Revolution. The Frenchman Pierre Du Pont de Nemours described what he saw in America in a book written at the request of Vice President Thomas Jefferson, entitled *National Education in the United States of America*. Having surveyed education in America, De Nemours wrote:

The United States are more advanced in their educational facilities than most countries.

They have a large number of primary schools; and as their paternal affection protects young children from working in the fields, it is possible to send them to the school-master—a condition which does not prevail in Europe.

Most young Americans, therefore, can read, write and cipher. Not more than four in a thousand are unable to write legibly—even neatly; while in Spain, Portugal, Italy, only a sixth of the population can read; in Germany, even in France, not more than a third; in Poland, about two men in a hundred; and in Russia not one in two hundred.

England, Holland, the Protestant Cantons of Switzerland, more nearly approach the standard of the United States, because in those countries the Bible is read; and in that form of religion the sermons and liturgy in the language of the people tend to increase and formulate ideas of responsibility. Controversy, also, has developed argumentation and has thus given room for the exercise of logic.

In America, a great number of people read the Bible, and all the people read a newspaper. The fathers read aloud to their children while breakfast is being prepared—a task which occupies the mothers for three-quarters of an hour every morning. And as the newspapers of the United States are filled with all sorts of narratives—comments on matters po-

itical, physical, philosophic; information on agriculture, the arts, travel, navigation; and also extracts from all the best books in America and Europe—they disseminate an enormous amount of information, some of which is helpful to the young people, especially when they arrive at an age when the father resigns his place as reader in favor of the child who can best succeed him.

It is because of this kind of education that the Americans of the United States, without having more great men than other countries, have the great advantage of having a larger proportion of moderately well informed men; although their education may seem less perfect, it is nevertheless better and more equally distributed.¹²

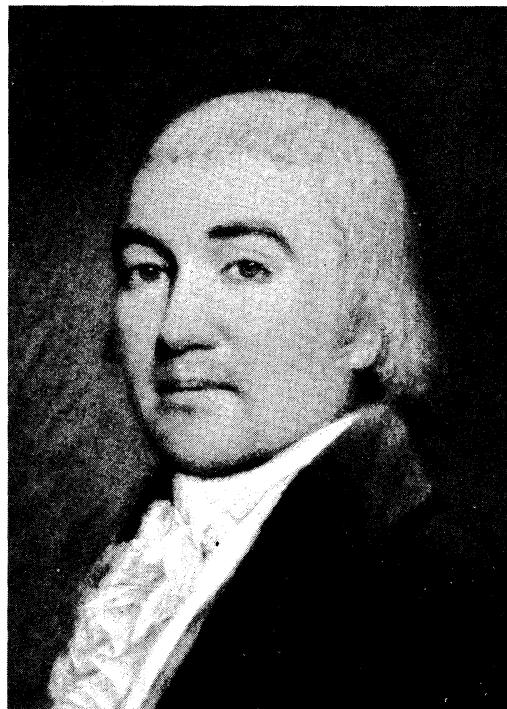
After the Revolution

The victory of the Revolution and the great freedoms guaranteed by the new Constitution were made possible in part by the consensus of thought and purpose which emerged from America's first national event—the Great Awakening. After the Revolution, Americans thought their Republic could be maintained only by continuing with the same national solidarity.

America's first challenge to its new national solidarity came in the nineteenth century with the westward expansion, the growth of industrialized cities, and the influx of immigrants. Many feared those moving west would return to barbaric ways in the wilderness. The quick expansion resulted in several states being added to the union, thus shifting the balance of political power away from the East.

The churches were challenged on two fronts—proclamation of the Gospel to a rapidly expanding audience and education of the newly converted. Voluntary societies were formed to help meet these needs. Some were involved in providing missionaries to preach the word, some supplied teachers, some helped publish and supply books and tracts for the new converts; others were involved in humanitarian activities.

Books and tracts became important items



*Noah Webster
(1758–1843)*

for traveling pastors; they provided a continuing education in the absence of the pastor. Voluntary societies were formed to supply these. Most notable among the agencies formed at this time were the American Bible Society in 1816 and the American Tract Society in 1825.

Missionary and educational societies were formed to establish churches and train ministers. After the Ordinances of 1785 and 1787 set aside land in every township for the maintenance of public grammar schools, ministers served as schoolmasters until the schools could be made operational. In 1824, the American Sunday School Union began teaching the "Three R's" in addition to Bible lessons to children who might not otherwise attend school. Churches, in particular Presbyterian and Congregationalist, were very active in founding academies and colleges for higher education.

Textbooks relied on a Biblical understanding of reality and a Protestant understanding of history. Webster's famous dictionary of the American language, published in 1828, was the first American dictionary

and defined words from a Biblical perspective using Scriptural references. Webster's "Blue-backed Speller" continued to be used. In 1836, William Holmes McGuffey published his *McGuffey Readers*. One hundred twenty-two million copies were sold in 75 years. Like Webster, McGuffey undergirded the content of his books with Biblical concepts and morality.

The Lure of State Schools

With the variety in educational options in early America, tax-financed schools did not receive widespread support. The Massachusetts Colony's early attempt at this type of public school failed. For years afterward, Massachusetts communities disobeyed legislative directives to establish schools, choosing instead to educate their children through private means.

Although some of the early statesmen, including Washington and Jefferson, had spoken in favor of some type of national education, there was little interest among the general public.¹³ In 1789, Massachusetts passed a law regarding establishment of tax-supported schools. Connecticut and New Hampshire passed similar laws. In 1796, Virginia enacted a state law establishing a state school system. Since the legislation was noncompulsory, Virginians neither taxed themselves for, nor established, tax-supported schools.

Although it theoretically left educational opportunities up to the states, the federal government in the Ordinances of 1785 and 1787 set aside land (one square mile) in every township. The income from the use of this land was to be earmarked for the maintenance of public grammar schools. Samuel Blumenfeld pointed out, "While the purpose of the land grants was to provide incentives to those who wished to establish communities in sparsely settled areas, the net effect was to encourage state governments to become involved in subsidizing education."¹⁴

None of the legislation passed in these years was compulsory. Therefore, parents continued to educate their children at home,

with tutors, or in private or church schools. Many local governments paid tuition for poor students to attend the schools of their choice. Many missionary agencies built and maintained schools for the poor in the large cities.

For years, it appeared the only strong advocates of state schools in America were the Unitarians of Boston, who denied Christian doctrines and accepted Rousseau's philosophy that negative behavior in society was a result of mis-education—not man's fallen nature. The Unitarians felt that man, who was essentially good, could be saved from the evils of society if he were properly educated. Samuel Blumenfeld has documented the Unitarian success in its press toward compulsory, government controlled, tax-supported state schools in his book *Is Public Education Necessary?*

The Nineteenth Century

Christian efforts to evangelize, educate, and minister to the rapidly growing population continued to be successful. As America approached the 1830s, educational opportunities abounded. Anyone who truly wanted an education could have one. Although common schools were in existence at this time in various places, most parents (even those paying taxes to support the common schools) continued to send their children to private institutions. In December 1832, H. D. Robinson bemoaned the prevalence of Christianity in the culture of the day: "Christian newspapers are numerous and well supported, Christian prayer meetings, Christian Sunday Schools, Christian public and private academies and universities, and various other mighty engines of Christian influence, are planted like the artillery of Heaven against the ramparts of reason and truth."¹⁵

The educational system which was in place was obviously working very well. The majority of Americans were not interested in replacing it.

But the Unitarians would not be stopped. Eventually the resolve of the majority began to dissolve as the push for state education

continued. Three factors became crucial in convincing Americans to reject the educational freedom that had built the greatest nation on earth. First, those interested in state education enlisted the support of teachers and clergy—even conservative clergy. While instilling doubt about the system that was successfully working, these spokesmen were effective lobbyists who won approval for their ideals in state legislatures before they were accepted by the citizens.

Second, approximately 35 million immigrants came to America in the nineteenth century. Unlike the first colonists, these were mostly poor and uneducated. Few, except the Irish, spoke English; many were Roman Catholic—whom many citizens thought presented a threat not only to American Protestantism, but the American way of life. Many wondered how these people would learn to participate not only in the American way of life, but the American system of government. Questions arose about the national loyalty of the Roman Catholics since they were served by priests whose allegiance was to Rome.¹⁶

Third, a move away from the religious principles of the colonists not only left the majority unprepared to refute the rationale behind the state school movement, but made them particularly receptive to it during times of stress. Bernard Bailyn has pointed out, "Public education as it was in the late nineteenth century, and is now, had not grown from seventeenth-century seeds; it was a new and unexpected genus whose ultimate character could not have been predicted and whose emergence had troubled well-disposed, high-minded people."

In spite of the success that had accompanied individual, missionary, and church educational endeavors, many Christians, encouraged by the Unitarians, began to look longingly toward the state school. Legislation forming these schools and taxes for funding them were considered a small price to pay to control the new elements threatening their "Christian culture."

Many Christians were persuaded that the state schools were the true savior of their

society. Bible reading was incorporated into the new state schools—albeit in a "non-sectarian" way. Prayer was also a daily activity. Because the schools were to reflect Protestant plurality, denominational differences were not discussed. The burgeoning Sunday School movement, it was thought, gave the denominations the opportunity to see that children were taught the finer points of denominationalism.

The preservation of "Christian" America was a fundamental reason why Christians supported the state school movement in the late nineteenth and twentieth centuries. Many Christian parents were comfortable sending their children to the state schools, because they believed they would receive instruction in religious and moral values that matched their own. But in looking to the state schools, Christians made two costly mistakes: They turned from persuasion to coercion, from evangelism to state education for the preservation of their society. They also abandoned their own parental responsibilities.

Dissenters

One of the first groups to feel left out of the new state school system was the Catholics. The exclusive use of the King James Bible and the anti-Catholic references in religious practice and history classes forced Catholics to establish parochial schools to preserve their religious distinctives. As early as 1829 bishops urged establishment of Catholic schools. In 1884, instead of simply urging, the bishops commanded their formation. Thus the Catholic parochial school system came into being. Thomas F. Sullivan has pointed out, "In many places it was customary that when new parishes were founded, the first building to be erected was the school. Construction of the church, rectory, and convent could all wait until the school was operating and its debt at least partially retired."¹⁷

Other religious groups protested the rising public school movement and continued to provide educational opportunities for their children. Among them were the Amish,

Episcopalian, Quaker, Mennonite, Moravian, Lutheran, and Presbyterian. Those groups of the Anabaptist tradition (Amish, Mennonite, Brethren) were most consistent in insisting upon and providing for distinctive educational opportunities for their children. They understood it to be the only way they could hope to preserve their societal structure in the oceans of diversity that were sweeping across the country.

One hundred forty-two Swedish Lutheran congregations maintained 56 parochial schools in 1870; however, preservation of the Swedish language appeared to be the main goal of these efforts. Norwegian Lutheran clergy seeking to preserve their distinctives clashed with church members who wanted to become part of the New World. For the most part Lutherans tended to favor state schools. The debate was eased when Luther's writings were interpreted to show that church and state had separate functions and mandates from Scripture—the state receiving the educational mandate. More pressure was put on Lutheran schools, and the anti-German sentiment during World War I forced the closing of many of their schools. It became necessary to show loyalty to the American way of life.¹⁸

Presbyterians historically had been strong advocates of Christian education. Their activity after the Great Awakening resulted in the establishment of primary and mission schools as well as colleges. Not only did they provide educational opportunities for children in their congregations, they used education as a means of mission activity. But when interest in the common schools arose, certain clergy were strong supporters of the state schools. These pastors, like many others, thought the Sunday School system was sufficient to counteract the non-denominational instruction of the religious education in the state schools.

However, the General Assembly of the Presbyterian Church in 1847 received a report on parochial schools which concluded, "our State schools, in their best estate, can teach no higher morals or religion, than what may be called the *average* of public morals and religion. So long as the

majority do not receive the truths of grace, State schools, their creature, can never teach the Gospel. In some States, it is already a matter of debate whether the word of God shall be admitted, and even if this were settled to our wishes, it needs scarcely be said our necessities demand something far higher than the bare reading of the Bible. In our State schools—Bible or no Bible—we have every assurance that Christ, and grace, and Gospel liberty, cannot, by authority, be so much as named; and without these there can be no Christian education."¹⁹

This General Assembly resolved to circulate copies of this report to its churches and expressed its firm conviction that every congregation "establish within its bounds one or more primary schools, under the care of the Session of the Church, in which together with the usual branches of secular learning, the truths and duties of our holy religion shall be assiduously inculcated."

In spite of this plea, the Presbyterian parochial movement of 1846–1870 was very disappointing, decimated by the rise of common schools, the division of the church into Northern and Southern branches, the Civil War, and theological disunity.

Northern Baptist efforts to establish academies in the late nineteenth century also met with failure. This failure was attributed to competition from state schools as well as a denominational ambivalence to the state school system.²⁰

The final victory for state schools came as the states began to enact laws of compulsory attendance. Prior to the Civil War, only Massachusetts had such laws. After the Civil War other states began enacting them. By 1900, 31 states had some form of compulsory education law. As these laws became more coercive, parents lost more control over their children's education to the point that they had no say in which state school they could attend.

The Twentieth Century

Catholic Schools. Over the years, Catholic schools grew in number and enrollment until the 1970s when many families moved

from the cities to suburbia. Unfortunately, the high costs of building and maintaining schools resulted in fewer being built to care for the newly placed suburbanites. Schools in the cities began to close because of lack of enrollment and funds to keep the schools open.

Today, many Catholic schools in the cities have received a new lease on life due to enrollments of inner city children who are not Catholic. Many of these children are from poor families who sacrifice to send their children to the parochial school where they can receive a quality education in a safe environment.

Protestant Day Schools. The Supreme Court decisions in 1962 and 1963 which removed prayer and Bible reading from state schools woke many Christian parents from their slumber. They began evaluating the state schools and found them wanting—religiously, morally, and intellectually. The American Protestantism of the nineteenth century had been replaced with the secular humanism of the twentieth. Parents began to seek educational alternatives for their children.

Once again, small private and church operated schools began to adorn the American educational landscape. James C. Carper has said of private Christian schools, "Not only do these institutions currently constitute the most rapidly expanding segment of formal education in the United States, but they also represent the first widespread secession from the public school pattern since the establishment of Catholic schools in the nineteenth century."²¹

Although these Christian schools are diverse and are supported by a wide variety of churches, they share two key factors: They profess the centrality of Christ as the Son of God and a personal Savior, and they profess their dependence on the Bible in their educational endeavors.

A wealth of Christian curricula has been developed which teaches subjects from a Biblical perspective. Science is based on a creationist perspective. History is viewed as the record of God's interaction with man.

The "Three R's" receive much emphasis. Reading is usually taught by the phonetic method. McGuffey's *Readers* and Webster's original dictionary have been reprinted as these schools look for texts with a strong Christian influence. Bible study and worship are part of the curriculum. Many topics which receive much attention in the state schools—such as sex education—are left to the parents. Thus, more of the school day is devoted to learning content. Overall, the academic achievements of students attending these schools is at least equal to, and more often higher than, the academic achievements of students in state schools.

Many parents and churches consider their involvement in the modern Christian school movement to be reclaiming what was lost in the last century. They try, as much as possible, to keep themselves free from government interference. Many refuse to report enrollment figures to state or federal education agencies on religious grounds. Thus, it is difficult to get a precise count of the exact number of these new schools and the number of students attending them. However, a 1987-88 *Schools and Staffing Survey* done by the National Center for Educational Statistics for the U.S. Department of Education estimated there were 9,527 Catholic schools and 12,133 "Other Religious schools" in America at the time of the survey.

As Christians resumed their responsibilities for educating their children, they found the state reluctant to give up control. In 1978, the State of Nebraska threatened to take children away from parents who chose to educate them at the Calvary Academy; eventually 22 Christian schools were caught up in a seven-year conflict with the state. In 1983, in Louisville, Nebraska, seven fathers spent 93 days in jail because they sent their children to a Christian school. In other places, Christian schools have been harassed by state officials because their teachers were not state certified—even though many teachers in Christian schools feel that to be state certified would be a sin. Zoning restrictions have been applied to stop churches from beginning Christian schools.

In addition to government harassment, Christian schools have had to cope with allegations of racism, inferior instruction, as well as religious fanaticism. Nevertheless, the schools continue to grow.

Many support agencies for Christian schools have developed over the years. These groups provide a wide range of services including providing accreditation services, curriculum, placement services, and legislative warnings and updates. They also inform parents and schools of measures they can take which will make them less susceptible to litigation and stand by them when they are threatened. In addition to these agencies dealing with Christian school issues, there are many dealing with religious freedom on a broader level—such as family and parental rights—as well as Christian legal associations ready to defend Christians whose religious rights are threatened.

Dr. John Holmes, Director for Government Affairs for the Association of Christian Schools International, said forced federal mandates present the newest threat to Christian schools, in particular, mandates which deal with sexual non-discrimination. Last year, his organization alerted ACSI schools in 22 states about sexual non-discrimination bills. The Equal Employment Opportunity Commission has begun to step in to defend workers in Christian schools who feel the school has violated their religious rights. Six cases ended up in court last year. Dr. Holmes said that the very fact that the EEOC accepts these cases is significant because Christian schools, which historically operate on very tight budgets, can be destroyed by legal fees.

It is estimated that approximately 12 percent of American children are in private schools, 80 percent of which are of some religious affiliation, the remaining 20 percent non-religious. It is estimated that approxi-

mately 630,000 children are being educated through home-schooling. These figures represent only those who have already opted for alternatives. A 1992 Gallup poll showed that 70 percent of Americans support choice in education. Christian parents have been the vanguard of the educational choice and parental rights movement. Perhaps many more will learn the lesson that school and state should be separate, just as church and state are separate. □

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DISESTABLISHING PUBLIC EDUCATION

by Anna David

Lawrence Seals is a cheerful 11-year old who lives in an urban West-Side Chicago neighborhood. Once a gang member, he was one of 150 inner-city children who made up the class of 1988 at the Corporate/Community School of America (C/CSA).

Created and funded by corporations, C/CSA is a "break-the-mold" school, a reform laboratory aiming to find answers to the problems that plague inner-city urban schools—crime, high dropout rates, violence, poor academic achievement. More than 80 percent of C/CSA's students come from single-parent families; 60 percent live below federal poverty levels. "It was terrible," says Lawrence of his days in the gang. "At least I didn't kill anybody."

But last summer, weary of resisting the gangs who tormented him on his daily walk to and from school, Lawrence announced to C/CSA's principal, Elaine Moseley, he was dropping out. Her response: a scalding reminder of what lay ahead if he walked out on his education and his future. Less than two hours after Dr. Moseley pleaded with her pupil to stay in school, Lawrence delivered to her office a promise to come to class—a promise he has kept. His handwritten note brought tears to her eyes. "Some kids would respond to pressure with a knife or a gun. But Lawrence responded—in writing.

Anna David is a consultant to the Reason Foundation's education studies program and a freelance writer.

has grown in inner strength. It's a profound example of how we can teach children to respond to the challenge of the streets."

C/CSA is run much like a business, with a 15-member board of directors, seven of whom are corporate executives. Their leadership, which includes aggressive management of financial resources and continual student performance measurement, has resulted in a school that boasts a 97 percent average daily attendance rate and a majority of students at or above national grade-level average performance levels. Last year, for example, nearly 88 percent of the school's six-year-olds were at or above the national grade-level average in reading. By comparison, 26 percent of Chicago public school six-year-olds had reached the grade-level average. Similar results appear in math and vocabulary. In addition, C/CSA operates year-round for about \$1,000 less than the \$6,000 spent per pupil in Chicago public elementary schools.

C/CSA is a working example of a market solution to the national education crisis. While public education remains mired in poor academic performance and financial crises, the private sector is proving that free market enterprises are vastly more efficient, more creative, and more responsive than government bureaucracies.

Throughout the United States, elementary and secondary school enrollments continue to rise while many states struggle just

to prevent an existing budget deficit from widening. Overall education expenditures are also sky-rocketing. At \$600 billion, or 12 percent of Gross National Product, the United States spends more on education than do most competitor countries whose students outperform ours on standardized tests.

Corporate Involvement in Education

By 1989-90, more than half (51 percent) of all school districts in the United States had entered into public-private partnerships, involving about 2.6 million volunteers, with an estimated value of \$225 million, an increase of 125 percent since 1986, says the National Association of Partners in Education. About 30 million, or 65 percent of all students in 1989-90 attended schools in districts that had partnerships with business. According to the U.S. Department of Education, about 50 percent of these partnerships involve the donation of goods and services; 25 percent the donation of money; and 25 percent a combination of goods, services, and money.

Indeed, business has given enormous amounts of money to public education but has rarely known what, if any, good it has done. A 1991 survey by SchoolMatch, an Ohio-based consulting firm that matches business with public schools and subsequently measures performance, shows that a majority of companies that give financial resources to schools have little idea of the outcomes of that investment. But that's changing. The private sector is seeking a return on investment—educated and educable workers. Creating innovative models, it is showing it can provide the programs necessary to encourage educational excellence.

Private companies have contracted to provide ancillary services in education for decades. Transportation, maintenance, labor negotiations, standardized testing, data processing, and professional services of lawyers, architects, and consultants are frequently provided by the private sector. Current patterns in private provision of school lunch programs, for example, sug-

gest 30 percent growth per year during the next 10 years, according to the Reason Foundation's *Privatization 1992*.

Private Teaching Practices

In the late 1980s, a renegade band of teachers decided to follow suit. Abandoning the security of tenure and union contracts to venture into private practice, these teachers "live or die" by the results they provide, says Chris Yelich, founder and president of the American Association of Educators in Private Practice (AAEPP). "Competition and accountability have led to innovation, efficiency, flexibility, and diversity," she says. "If schools are not happy with the result, the contract is not renewed."

Public educators often lack the incentive to produce results, to innovate, to be efficient, to make the kinds of difficult changes that private firms operating in a competitive market must make to survive. Private practice teaching breaks this monopoly and significantly upgrades the professional status of teachers, leading them to be directly accountable to their clients—and either succeed or fail.

Some limited contracting is now permitted in Wisconsin, where AAEPP has more than 100 members, and also Michigan, Minnesota, Maryland, Florida, Illinois, and North Carolina. It is in Raleigh, North Carolina, that one private firm, Dialogos International, received a contract with the Wake County Public Schools to teach French, German, Spanish, Italian, Chinese, and Japanese in kindergarten through fifth grade. This was after the state passed a law in 1985 requiring all children in grades K-5 to study a foreign language by the 1994-95 school year. The school board estimates the annual cost of a contract with a Dialogos teacher, at about \$19,000, is 30 to 50 percent less than the annual salary of a classroom teacher. And if the county is not happy with the language instruction, it can choose not to renew the contract. In the current system, schools find it nearly impossible to fire an incompetent teacher.

Since 1986, teachers have opened a vari-

ety of private practices. In Milwaukee, former elementary school teacher Kathy Harrell-Patterson opened her own school, Learning Enterprise of Wisconsin, to help young mothers improve basic learning skills. "No one school can meet the needs of every child," she says. "We're catching those kids who fall through the cracks and unfortunately, there are quite a few of them."

Others run computer-assisted learning classes, instruction in foreign languages, math, science, and music, to gifted or remedial students, or through methods such as experiential learning or peer-teaching. However, obstacles encountered by private practice teachers suggest problems are inherent in joint operations. While more individual teachers favor the option of private practice, their unions have labeled it "union busting." And while school boards are permitted to contract, agreement from the local union is imperative or boards could face a strike.

For many, the real goal is to get government out of schools altogether. A handful of private firms have made major inroads into private practice. Aware that many public schools are only too relieved to be rid of problem students, one private, for-profit firm, Ombudsman International, provides education to dropout students. For a \$3,000 to \$4,000 per-student fee—about half the public school per-student fee—Ombudsman boasts a 90 percent retention rate.

Effective Private Alternatives

Private alternative education is more than twice as cost-effective as running a public school district-sponsored program, says Ombudsman president James Boyle. For example, an average district-sponsored program in 1991–92 cost \$428,000 for 60 students—a cost of \$7,200 per student; next year the cost is expected to rise to \$492,000, or \$8,200 per student. The company's schools, housed in shopping centers or business and industrial parks, are staffed by certified teachers, and the pupil-teacher ratio is no higher than 10 to 1. Ombudsman

teachers assess each student in English, reading, and mathematics before entering the program, and develop individualized instruction. Students work at their own pace three hours each day, five days a week, receiving lessons and tests on video-display terminals. Students enroll in an Ombudsman program on a private-tuition basis, or are referred by school districts who retain the remainder of state aid for their students after meeting the private company's fee.

Another private firm, Education Alternatives, Inc. (EAI), runs its own private schools, and also has two major contracts to manage public schools. EAI provides its own teaching program, and with the help of subcontractors KPMG-Peat Marwick and Johnson Controls World Service, aims to cut 25 percent from the public schools' administration and operating budgets. Chairman David Bennett knows it can be done; after all, EAI's own private schools operate efficiently for significantly less money while its students outperform those in the public schools.

Corporate philanthropy, once a well-intentioned, feel-good public-relations exercise, is increasingly meeting education needs. For example, the \$200 million New American School Development Corporation, made up entirely of private grants, is the single largest non-federally funded education project in U.S. history.

In addition, 1991 saw the birth of privately funded education scholarship programs—private funds for low-income students to attend private schools. Beginning with Golden Rule Insurance Company's scholarships for low-income Minneapolis students to attend private or parochial schools of choice, other corporations and foundations have followed suit. This year, Kinetic Concepts, Inc., USAA Federal Savings Bank, and the San Antonio Express News; Partners Advancing Values in Education and the Lynde and Harry Bradley Foundation in Milwaukee; and the Vandenberg Foundation in Michigan, all announced similar plans to provide scholarships for low-income students. Golden Rule Insurance Company's Choice Charitable Trust spokesman, Tim

Erghott, expects half a dozen more programs within the year. These scholarship plans create incentives for parents to investigate schools, and for private schools to respond to parents' preferences.

The growth in private sector provision of education services is evident, too, in the growth of for-profit learning centers that provide after-school remedial instruction and summer school programs. Parents, increasingly concerned about the quality of public schools, want to supplement their children's public education with academic courses and learning skills in a small classroom setting they feel the public schools cannot match.

Since 1980 almost 500 Sylvan Learning Centers, an international franchise chain nicknamed the "McDonald's of Education," have opened. All centers work on the same formula: individualized basic-skills instruction after school and during weekends and holidays with an emphasis on accountability. The student begins with a two-hour battery of standard diagnostic tests, including examinations to determine if the student has any hearing or vision problems. Based on the student's ability level, instructors prepare a curriculum that may include workbook exercises, audio-visual aids and computer-aided instructional programs. Standardized exams are used frequently to check progress. Sylvan not only provides the basic instruction many parents feel their children do not receive in the public classroom, but while public schools continue to release students at 3 p.m. when many parents are still at work, Sylvan ensures the students' after-school time is spent in an enthusiastic learning environment.

Private summer schools are experiencing a boom largely due to widespread cutbacks in public school summer programs. In fact, since 1986 private summer school programs—costing as much as \$5,000 for six weeks—have increased by 55 percent, according to Peterson's national directory of private summer schools and camps for children and teenagers.

Some of the most successful private

schools that already exist are religious or church schools. Of the 5.2 million children in private education, for example, more than half attend Catholic schools where students typically score two grade levels above the national average in math, reading, vocabulary, and writing, and where the dropout rate is estimated at less than one percent. This compares dramatically with the national average dropout rate of 29 percent. As a result, 86 percent of Catholic high school graduates go on to college, compared with the national average of 57 percent. According to the National Council on American Private Education, Lutheran schools teach an estimated 247,000 students (1988 figures); interdenominational Christian schools, 233,000; Baptist, 335,000; Jewish, 158,000; and Episcopal, 85,000 students.

In the meantime, a growing number of parents aren't waiting for public education to improve, or for vouchers, or chain-store style private schools. Instead, increasing numbers are teaching their children at home. An estimated 350,000 children are now homeschooled, compared to only 15,000 in the early 1980s, says the Department of Education. Although homeschooling is legal in 50 states, the laws vary widely. In some states, parents must be certified teachers; in others, parents must only notify the district of their intentions, and have the curriculum approved by school officials. The rise in homeschooling is a dramatic illustration of parents ultimately exercising market choice.

After an era when business leaders, as Chicago's Teach America president Patrick J. Keleher says, "seem to have been mesmerized by the titles, the jargon, and perhaps the flag-waving that comes out of the incredibly powerful education establishment," competitive market principles are now being increasingly applied to education. Performance expectations and increased academic achievement are the returns on investment the private sector seeks, and in doing so, it provides the economic reality check public education in this country so desperately needs. □

EDUCATION FOR ONE'S OWN SAKE

by Leonard E. Read

In previous chapters I have tried to demonstrate that government is organized police force and that its function is to keep the peace; that education is a peaceful, creative, productive pursuit of the type disastrously affected by government intervention. Now, were government to step aside in education as it has stepped aside in religion—that is, if compulsory attendance, state-dictated curricula, and forcible collection of the wherewithal to pay the school bill were omitted—education would be left to the free market.

Were this break with tradition to take place, what would happen?

Strange as it may first appear, no one can know! Some will say that this admission is a retreat from my argument that education would be improved if left to the free, competitive market. On the contrary, it is in support of the free market as the sole, effective means of improving education.

If you are compelled to do as someone else dictates, if unnatural obstacles are placed in your way, if you are relieved of

responsibilities, I can at least predict that you will not function to your fullest in a creative sense. But no one can even roughly predict what wondrous things you will create if released from restraints and dictation, that is, if freed from obstacles. Indeed, you cannot make such predictions about yourself. What new idea will you have tomorrow? What invention? What will you do if a new necessity, an unexpected responsibility, presents itself? We know that creativity will be increased, nothing more. . . .

Religious Freedom

In the United States, we have rejected the use of the police force for the purpose of determining one's religion. Are high moral standards and improving attitudes toward one's life and the lives of others—prime objects of religion—of less value than knowing how to read or to write or to add two and two? Indeed, are not both education and religion intimately personal matters, one as much as the other? Is the education of another any more of my or your business than the religion of another?

In many countries—certainly in the U.S.A.—the idea of (1) being compelled by government to attend church, or (2) having the government dictate clergymen's subject matter, or (3) having the expenses of religious institutions forcibly collected by the tax man, would be an affront to the citizens'

Leonard E. Read (1898–1983) established The Foundation for Economic Education in 1946 and served as its president until his death.

This article is adapted from a chapter in Mr. Read's book, Anything That's Peaceful, originally published in 1964 by The Foundation for Economic Education. Anything That's Peaceful has been reprinted by FEE and is available in paperback for \$10.95.

intelligence. Why do people believe in applying police force to education and letting religion rest on self-determination? Logically, there appears to be no basis for the distinction. Tradition, custom—living with a mistake so long that reason is rarely brought to bear—may be the explanation.

Being a disbeliever in the management by the police force of any creative activity, I have on countless occasions asked individuals in various occupational levels if they would let their children go uneducated were all governmental compulsions removed. The answers given me have always been in the same vein. If you will try this yourself, you will be impressed with how alike the answers are: "Do you think I am a fool? I would no more let my children go without an education than I would let them go without shoes and stockings. *But* some forms of compulsion are necessary, for there are many persons who do not have the same concern for their children as I have."

And there you have it! Police force is never needed to manage my education, only necessary for the other fellow! The other fellow's weakness—the possibility of his having no interest in himself or in his offspring—is far more imaginary than real. It is, for the most part, a fiction of the compulsory, collectivistic myth. Should you doubt this, try to find that rare exception, "the other fellow." If every parent in this country were to consider authoritarianism in education as applying only to himself and could divorce from his thinking the "incompetency of others," there would be no police force applied to American education. Let any reader of this thesis, regardless of wealth status, honestly try this exercise and arrive at any other conclusion!

A Parental Responsibility

A child, from the time of birth until adulthood, is but the extension of the parent's responsibility. The child can no more be "turned out to pasture" for his education than for his morals or his manners or his sustenance. The primary parental responsibility for the child's education cannot prop-

erly be shifted to anyone else; responsible parenthood requires that some things remain for one's own attentions, no matter how enticingly and powerfully specialization and division of labor may beckon one. And, the education of one's children is a cardinal case in point.

This does not mean parents should not have help—a lot of specialized assistance—with their educational responsibility. It does mean that the parent cannot be relieved of the educational responsibility without injury to himself—that is, without injury to his own person and thus to the child who is but the extension of his personal responsibility.

Police Force Interjected

How does the application of police force to education bear on this question? It tends to relieve parents of educational responsibilities, including the study that might have involved themselves. Compulsion—police force as boss—says, in effect, to the parent: "Forget about the education of your child. We, acting as government, will compel the child to go to school regardless of how you think on the matter. Do not fret unduly about what the child will study. We, the agents of compulsion, have that all arranged. And don't worry about the financing of education. We, the personnel of authority, will take the fruits of the labor of parents and childless alike to pay the expenses. You, the parent, are to be relieved of any choice as to these matters; just leave it to the police force."

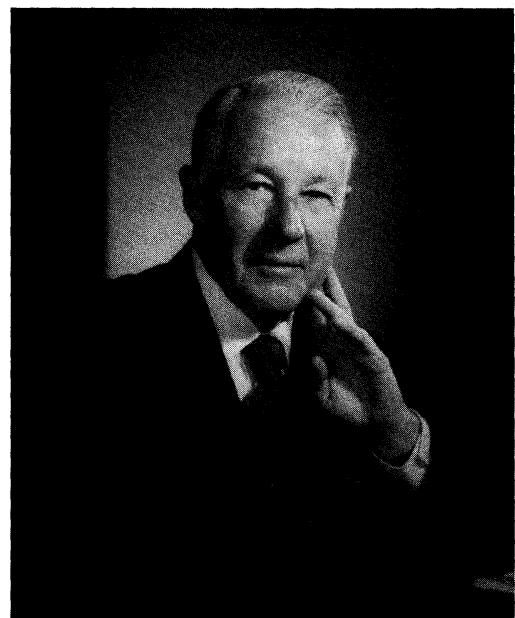
Second, these police force devices falsely earmark the educational period. They say, ever so compellingly, that the period of education is the period to which the compulsion applies. The ceremonies of "graduation"—diplomas and licenses—if not derivatives of this system, are consistent with it. Government education is resulting in young folks coming out of school thinking of themselves as educated and concluding that the beginning of earning is the end of learning. If any devotee of government education will concede that learning ought to continue throughout all of life, he should, to be

consistent, insist on compulsion for adults as well as for children—for the octogenarian as well as for the teenager. The system that is supposed to give all an equal start in life tends to put an end to learning just at the time when the spirit of inquiry should begin its most meaningful growth.

A Faith in Freedom

It was stated above that no one could know what would happen were there to be no more police-force-as-boss in education. That assertion is correct concerning specifics and details, but there are generalizations which can be confidently predicted. For instance, one knows that creative energies would be released; that latent potential energies would turn to flowing, moving, power-giving, kinetic energies and activities. Creative thought on education would manifest itself in millions of individuals. Such genius as we potentially and compositely possess would assert itself and take the place of deadening restraints. Any person who understands the free market knows, without any qualification whatsoever, that there would be more education and better education. And a person with a faith in free men is confident that the cost per unit of learning accomplished would be far less. For one thing, there wouldn't be any police boss to pay for. Nor would there be the financial irresponsibility that characterizes those who spend other people's money. The free market is truly free.

Not only is this faith in uninhibited, creative human energy rationally justified, but also there is evidence aplenty to confirm it. In other words, this faith is supported both theoretically and pragmatically. Except in the minds of those who are temperamentally slaves—those who seek a shepherd and a sheep dog, those who are ideologically attuned to authoritarianism—there does not exist a single creative activity now being conducted by man in voluntary action that could be improved by subjecting it to the police-force-as-boss. But put any one of these activities, now voluntarily conducted, under government control, leave it there for



*Leonard E. Read
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a short period, and general opinion would soon hold that the activity could not be conducted voluntarily. . . .

It is a separation from reality, a blindness to the enormous evidence in support of freedom—like being unaware of our autonomic nervous system and its importance—that accounts for much of our loss of faith in the productivity of an educational system relieved of restraints and compulsions. The restraints, be it remembered, are in the form of taxes—the taking away of the wherewithal to finance one's own educational plan. The compulsions are in the form of forced attendance and dictated curricula. . . .

The myth of government education, in our country today, is an article of general faith. To question the myth is to tamper with the faith, a business that few will read about or listen to or calmly tolerate. In short, for those who would make the case for educational freedom as they would for freedom in religion, let them be warned that this is a first-rate obstacle course. But heart can be taken in the fact that the art of becoming is composed of acts of overcoming. And becoming is life's prime purpose; becoming is, in fact, enlightenment—self-education, its own reward. □

HOMESCHOOLING AND EDUCATIONAL CHOICE

by Dennis L. Peterson

The 1992 election campaign brought to the forefront of public attention an issue whose time apparently has come: school choice. The condition of public education has deteriorated until parents are demanding the opportunity to choose alternative schools for their children, whether different public schools, private academies, or parochial schools.

Conspicuously missing from the discussion, however, has been an alternative form of schooling that has already been the choice of the parents of an estimated 250,000 to 1,000,000 children: homeschooling. According to an article in *USAir Magazine* (March 1991), its estimate of 500,000 homeschooled youngsters is "perhaps only half the actual number," and the total is increasing every year.

Five years ago, my perception of homeschooling was at best neutral and in some instances openly negative. I saw homeschooling as an over-reaction of well-meaning but misguided parents to admittedly bad conditions in public education. I could understand and support one's choice of a traditional private school; I had even taught in several such schools, and two of my four daughters were enrolled in one. But homeschooling was a step off the deep end.

Mr. Peterson is a homeschooler and a frequent contributor to The Freeman, Teaching Home, and other periodicals.

Whoever made that choice deserved whatever harassment they got from hostile local or state government officials.

Today, however, my perception has changed dramatically. After careful research and consideration, my wife and I stepped off the deep end, too. We pulled our two oldest daughters out of their traditional private school and began teaching all four of our daughters (the youngest two were kindergarten age at the time) at home. We are now in our fourth year of homeschooling and are more convinced than ever that we made the right decision.

Countering Objections to Homeschooling

Several objections are raised against parents' homeschooling their children. Perhaps the most frequent contention is that it robs the child of opportunities for proper socialization and therefore leaves them unprepared to interact with not only children their own age but also adults. Most homeschoolers, however, including ourselves, are involved regularly in myriad outside-the-home social situations. Church youth group activities, scouting, various sports leagues, and a variety of clubs offer sufficient opportunities for socialization. Experience reveals, in fact, that in many cases homeschooled children are actually *better* able to interrelate with their peers and older folk as

well. Many support groups are available among homeschooling families to provide for social activities as well as for opportunities for public performances by the children. Our girls regularly take part in plays, recitations, and work demonstrations sponsored by the support group to which we belong.

Perhaps the second most frequently voiced objection to homeschooling is that untrained parents are not certified professional educators; therefore, they are incapable of adequately teaching their own children. Beside the fact that state certification has never been a guarantee of teaching ability or professional qualification, there is much that can be said to counter this charge. Not even the *best* classroom teacher, with from 15 to 30 or more students, can know any individual child as well as do his parents, let alone provide that child with the individual care and attention he often needs.

The homeschooling parent, on the other hand, has an almost ideal teacher-student ratio of from 1:1 to 1:5, thus permitting a great deal of individual attention. Former Secretary of Education William J. Bennett wrote in *The Devaluing of America*, "When serious teachers are asked the single most important improvement that could be made in education, they invariably say greater involvement and cooperation on the part of parents." One could not ask for a higher degree of parental involvement than homeschooling provides for the child.

But the argument goes further than parental involvement. The typical homeschooling family, according to the *USAir Magazine* article quoted earlier, has "one principal wage earner, almost always the father, making almost \$30,000 per year. *Both parents enjoy approximately 1.5 years more education than the average American*" (emphasis added). Homeschooling parents are not generally high-school drop-outs; they are well-educated. For example, in a random sampling of the 30 or so parents in our local support group, more than two-thirds are college graduates (and many of those have graduate degrees), and several are former teachers.

Even for the parents who are not trained educators, however, the availability of curricula specially designed for homeschool parents make successful home-based education possible. As the number of parents opting to educate their own children has increased, so has the demand for high-quality teaching materials. With greater demand has come a proliferation of educational publishers, many of them university presses, who are willing to provide the specialized curricula and related materials. Resourceful parents have learned to mix and match curricula to meet the individual needs of their children. An entire industry has evolved to research, develop, test, and market these textbooks and teaching aids.

Life Is Education

Homeschooling parents also have capitalized on extra-curricular learning opportunities, proving that education, rather than being confined to the traditional classroom and restricted to the hours of 8:00 a.m. to 3:00 p.m. five days a week for nine months a year, is perpetual and unlimited. Education is life; life is education. Thus, they make wise and frequent use of family field trips, learning at times and in places that often are inaccessible to students in traditional schools.

For instance, our family enjoys camping. We count our camping trips as school days because we consciously plan educational activities for the children. We study biology together as we explore mountain streams and hike nature trails. We learn together about how our ancestors lived as we visit living history exhibits, watch mountain craftsmen, and listen to park rangers' nightly talks on the pioneers and Indians who once lived in our rugged mountains. We create both verbal pictures and visual sketches as we contemplate the nature around us in the wild. We learn how to provide for our health and safety in the wilderness and how to appreciate and care for our land's natural resources. Perhaps the best part about all of this learning is that the girls never complain that they "have to go to

school.'" They now know that learning and having fun as a family are complementary, not competitive, activities.

Homeschooling is not a panacea, and it is not for everyone. Whoever considers it should carefully count the costs before taking the leap. In deciding to homeschool our children, we carefully weighed and willingly chose to accept the following limitations and restrictions.

First, homeschooling leaves us less personal time to do what we as parents would do individually or together as a couple. Homeschooling (if it is done right) takes an awful lot of time in preparation and application. It can tend to monopolize one's thoughts and conversations, to say nothing of the time it takes. It certainly intrudes on private time, especially one's hobbies. For example, part of the price I must pay to homeschool our daughters is giving up some of my own reading and writing activities. My wife can spend less time with her crafts and gardening or lawn care.

Second, it can mean living in a house that looks well lived in and that is by no means in showcase condition. The yard may at times have to go an extra week before it gets mowed. The laundry may pile up. The next remodeling or redecorating project may get bumped to the back burner indefinitely. But what is a house if it is not a place where real people live? Besides, we have found that many of those cleaning tasks can get done through teamwork with each family member carrying a little of the load and applying a few of Leonard Read's economic principles for boys and girls—picking it up if you drop it, putting it away if you get it out, and cleaning it up if you mess it up. And in the process, the children are learning responsibility.

Finally, homeschooling is an added financial burden. Just because we are not using the facilities, materials, or teachers of the public school system does not exempt us from paying for them. But we choose to accept the additional expenses of textbooks, materials, registration, higher field trip fees (most places don't give homeschoolers group discounts) and testing required by homeschooling. For our situation, this av-

erages an additional annual expense of about \$600. But we believe the benefits far outweigh the cost.

Control of Curricula and Teaching Time

One such benefit is that we have gained control of the curricula of our children and are able to devote time and effort teaching the facts, values, and principles that are most important to us as a family. Because we select and teach the materials, we do not have to worry about a stranger foisting onto our children values or ideas foreign to our beliefs. We have no fear of a teacher using a program that supposedly is designed to "clarify" values but that in reality *undermines* the values we hold.

Another benefit is that it gives us control of teaching time, permitting us to devote either more or less time to certain lessons according to the individual needs and interests of each child. No longer does our brightest daughter have to sit and wait for other slower students to finish their work before she can go on to new lessons. No longer must a slower daughter be frustrated to tears because the teacher cannot take time to offer her individual help lest she hold the entire class back; she, too, can proceed at her own pace. Plus (and our girls *really* like this point), we do not lose precious time getting everyone lined up to go to the rest room, lunch, or recess!

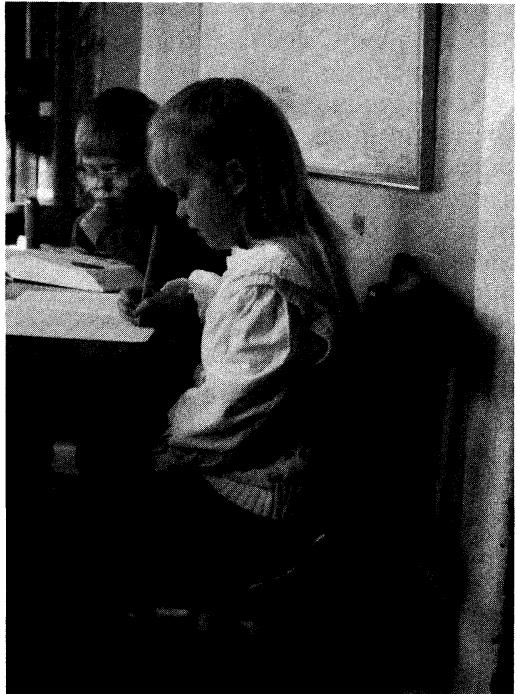
A third benefit is that we are getting priceless, never-to-be-repeated opportunities to know our children as individuals because we spend so much time doing things together. We have become firm believers in the idea that children need not only *quality* time but also large *quantities* of time with their parents. Homeschooling permits both.

Another benefit is the flexibility that homeschooling affords. Although few interruptions are permitted when our school is in session, we can be flexible in times of emergency. If pressing business demands that we travel on a school day, we don't have to pull the girls out of classes; we take the classes with us and learn as we go. We

can have school at night, on Saturday, or even on holidays. We can conduct classes in the summer if we want (although we generally try to adhere closely to the local public school calendar because most of the girls' playmates attend public schools).

But just as homeschooling has many tempting benefits, it also has some dangers. Perhaps the danger most widely feared among homeschool parents is interference by government. As the number of parents who homeschool has increased, so has the number of situations in which government has tried to force parents to compromise their convictions or even to give up homeschooling altogether. Some parents have been challenged because they are not certified to teach, do not have college degrees, or have refused to register with local authorities. Of those who have been so harassed, a few have been sued or even jailed for various violations. Some local public school authorities seem especially bent on discouraging homeschooling within their districts because each homeschooled represents thousands of dollars in lost revenue for their schools if funding is allotted according to individual school enrollment.

In recent years, however, many authorities have begun to be more cooperative with homeschoolers. Every state now permits some form of home education, each with somewhat different rules and regulations. In our state, for example, any parent with a high school diploma may homeschool his or her child through the eighth grade; parents of high schoolers must have a college degree. (Parents without a degree may apply for a waiver, but none has ever been granted.) Students must have at least a 180-day school year and must be tested in grades 2, 5, 7, and 9. Homeschoolers must be registered with either the local school superintendent or a private "umbrella" school. Although the cooperation of local officials seems to make the climate for homeschoolers better, that in itself seems to be a cause for concern: whenever the power of government is involved in something—even for apparently good causes—the recipients of such favor or tolerance should beware.



DEBBIE BEISNER

This is the greatest fear my wife and I have of the much-discussed government-sponsored school choice plans. Unless the choice is *totally free*, government can and will make its power felt somewhere in the "choice" process. Perhaps it will come in the guise of limiting the choice to only other public schools, to "approved" or accredited private schools, or to parents who have degrees from government-approved colleges or even to parents who have been certified. If the voucher plan is approved for a school choice program, wherever government funds or tax credits are extended so is the strong, controlling arm of government. Government funds always come with strings attached.

Undoubtedly the best possible school choice plan would be the free market: no government coercion to attend *any* school. That means total freedom to choose—whether that choice be public schools (should any survive the competition of the free market), private schools, homeschooling, or even no school at all. Let the market, which has brought the United States such unsurpassed material prosperity, bring us a similar educational prosperity. □

BOOKS

Dumbing Us Down: The Hidden Curriculum of Compulsory Schooling

by John Taylor Gatto

New Society Publishers, 4527 Springfield Avenue, Philadelphia, PA 19143 • 120 pages • \$9.95 paperback

Reviewed by Hannah B. Lapp

If John Taylor Gatto were introducing his book to us, he'd do us the favor of introducing himself first. In order to do justice to Mr. Gatto and his eye-opening book, *Dumbing Us Down: The Hidden Curriculum of Compulsory Schooling*, I must offer first of all a few words on the author himself.

Mr. Gatto taught for 26 years in New York City public schools, a number of these years in Harlem and Spanish Harlem. But his "heart and habit," he asserts in his "Biographical Note," are still in Monongahela, the small riverside town in Pennsylvania where he spent his early years. He describes the town as "an altogether wonderful place to grow up, even to grow up poor," a place where "independence, toughness, and self-reliance were honored," and where, he says, he "learned to teach from being taught by everyone in town."

A year and a half ago, the public school system lost Mr. Gatto, and along with him it lost much of the smokescreen that has enabled it to remain so remarkably unchallenged over the years. Just after receiving the 1991 New York State Teacher of the Year Award, Mr. Gatto announced he was going to quit because he didn't want to "hurt" kids anymore. "Government schooling," he charged, "kills the family by monopolizing the best times of childhood and by teaching disrespect for home and parents."

The publishers of *Dumbing Us Down* call Gatto's ideas about education "not easily

pigeon-holed," which is an accurate observation. Who else would stand up and tell us that schooling as we know it is not education, but a "twelve-year jail sentence where bad habits are the only curriculum truly learned"?

According to Gatto's observations, the seven lessons taught in public schools from Harlem to Hollywood Hills, are these:

1. *Confusion* (The natural order of real life is violated by heaping disconnected facts on students.)

2. *Class position* (Children are locked together into categories where the lesson is that "everyone has a proper place in the pyramid.")

3. *Indifference* (Inflexible school regimens deprive children of complete experiences.)

4. *Emotional dependency* (Kids are taught to surrender their individuality to a "predestined chain of command.")

5. *Intellectual dependency* (One of the biggest lessons schools teach is conformity rather than curiosity.)

6. *Provisional self-esteem* ("The lesson of report cards, grades, and tests, is that children should not trust themselves or their parents, but should instead rely on the evaluation of certified officials.")

7. *One can't hide* (Schooling and homework assignments deny children privacy and free time in which to learn from parents, from exploration, or from community.)

He also contends that many of our modern society's excesses, including the growth of commercial entertainment, such as television, the dependence on experts, and even parts of our economic structure (prepared-food industries, for example) would wither once people started truly thinking and acting for themselves. The thought of people doing more things for themselves is exciting, but I hope Gatto doesn't mean to say that working for pay is always dependency. And although it's true that most individuals would benefit from diversifying their skills, Gatto would have to admit that highly specialized professions also have their place in a prosperous society.

The best thing about Gatto is he doesn't seek to impose his version of desirable

education on anyone else. Neither can he be accused of being anti-civilization, and certainly not anti-education. He speaks admiringly of early America's prosperity (and literacy) through individual initiative, and even offers ideas toward the revival of better schools and communities in our current day.

As for solutions to the state of our educational system, Gatto at one point advocates a voucher, or school choice system, which would still be sadly deficient because of its dependence on government funds. His real thrust, though, comes out beautifully on page 79: "Break up these institutional schools, decertify teaching, let anyone who has a mind to teach bid for customers, privatize this whole business—trust the free market system. I know it's easier to say than do, but what other choice do we have?"

Sure, it's a radical proposal, and Gatto

doubtless has his enemies. However, there's a part of every one of us that thrills to his appeal to unleash the infinite possibilities within the human mind. And most of us can't help asking ourselves questions, such as, "Where did we ever get the idea that education means just the same thing to one person as it does to another?" Even more relevant: "How did we ever come to accept that any one group's version of education should be forcibly imposed on every American child?"

Reading *Dumbing Us Down* with an inquisitive mind is a whale of a learning experience, and it doesn't take long to do. The book is only 120 pages, every one of them delightfully original. □

Hannah Lapp is a free-lance writer who lives in Cassadaga, New York.

Back in print!

Anything That's Peaceful The Case for the Free Market

by Leonard E. Read

Anything That's Peaceful was written in 1964, 18 years after Leonard Read established The Foundation for Economic Education. The book, hailed by many as Leonard Read's best, is the fruit of years of experience in lecturing and writing on the free market and related institutions.

"By my title, 'Anything That's Peaceful,'" Mr. Read explains, "I mean let anyone do anything he pleases that's peaceful or creative; let there be no organized restraint against anything but fraud, violence, misrepresentation, predation; let anyone deliver mail or educate or preach his religion or whatever, so long as it's peaceful." Intriguing chapter titles such as "Only God Can Make a Tree — or a Pencil," "The Most Important Discovery in Economics," and "The Greatest Computer on Earth" invite the reader to accompany Leonard Read on his exploration of the wonders of freedom. This handsome new edition, with a foreword by Hans F. Sennholz, is a perfect present.

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MARCH
1993
VOL. 43
NO. 3

Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

President: Hans F. Sennholz, Ph.D.

Editor: John W. Robbins, Ph.D.

Senior Editor: Beth A. Hoffman

Associate

Editors: John Chamberlain
Bettina Bien Greaves
Edmund A. Opitz
Paul L. Poirot, Ph.D.

Contributing

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Additional copies of single issues of *The Freeman* are \$2.00. For foreign delivery, a donation of \$35.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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FAX (914) 591-8910

PERSPECTIVE

Poverty and Freedom

Poverty is an uninteresting subject. Poverty has been, and continues to be, man's standard fate throughout his entire history. The reason is simple. People are poor because they cannot produce much that is valued by others. The intriguing question is why a *tiny* percentage of the world's population, for only a *tiny* part of man's history, has been spared man's usual fate. If we could answer that question, America's wealth could be readily duplicated throughout the world.

While nobody has the complete answer, there are some clues, hunches, and bits of circumstantial evidence. Freedom is the connection. Where we find riches, we tend to find freer people. An examination of Amnesty International's listings of human rights abuses shows a definite pattern where those nations with the least respect for human rights are also the poorest. By contrast, those with the greatest respect for human rights tend to be the richest.

—WALTER E. WILLIAMS

The War on Words

Words—nasty or nice—are never more than passive sparks. Only when there's something to burn can there be a fire. The tantrums you threw as a child, the rage you feel when your expectations are unfulfilled, the angry outbursts that follow stress in your life—these are *learned responses to external events*.

Each of us is responsible not only for how we act, but for how we feel. Yes, as children we were slaves to parental schooling and guidance. Values on our moral menu were instilled in us with little choice or control on our part. But—we don't remain helpless toddlers. Humans have powerful, active centers of volition and reason in their noggin capable of discerning good from bad, better from worse. We are educable for life. Childhood emotions and behaviors can be silly, impetuous, and wrong—and they can be changed. We don't have to be jerks just

because Mom and Pop couldn't do a better job.

Anti-hate/harassment ordinances seem now the vogue. City fathers and mothers, with altruistic impatience, try to protect minority sons and daughters from verbal sewage. We reflect: Prohibition failed to control alcohol consumption; the War on Poverty increased welfare lines; the War on Drugs is a horrible political addiction.

And now the War on Words: What will be its impact on freedom of speech? By extension, will we give credence to would-be censors of all forms of communication?

Words will never hurt us like the sticks and stones of bad laws.

—JERRY BOAL

Congressional Reforms

Several recent reforms tend to bias the composition of the Congress in such a way as to be inimical to liberty.

First, with the advent of strict limits on outside income, members of Congress and high government officials appointed to office end up viewing the federal government as their principal source of wealth. This is no doubt a partial explanation for the actions of these officers of the state; laws are passed and regulations are enacted which have the effect of influencing a large number of their constituents to regard the state as their principal benefactor.

Second, full financial disclosure requirements ensure that only persons with a remarkable degree of personal tolerance of government intervention and invasion of privacy will seek or accept high office. It is all too easy for a man to suppose that what interventions and burdens he can tolerate, his neighbors can and ought to bear as well.

Third, campaign spending limitations and public financing of campaigns serve to limit the role of private wealth in elections. This means that fewer persons who have acquired wealth in freedom, and are thus

favorably disposed to economic freedom, will gain office. Invariably, those who do not favor economic freedom favor political redistribution of wealth and the consequent diminution of freedom.

—JOSEPH S. FULDA

Public Employee Pay

Pay for employees of state and local governments rose four times faster than pay for employees in the private sector during the 1980s. By 1989, the average government employee at the state and local level received 9.1 percent more compensation than the average nongovernment employee. From 1980 to 1989:

Average private sector employee compensation increased by 3.4 percent or \$960 annually after adjusting for inflation.

The average increase for employees of state and local governments was 14.6 percent or \$4,031 annually after adjusting for inflation.

Thus, compensation for state and local government employees increased \$4.20 for every \$1.00 of increase in the private sector.

In all but five states, state employees have higher average wages and salaries than private sector employees. Local government employees average more than nongovernment employees in 36 states. During the 1980s:

State government employee wages and salaries grew faster than those for private sector employees in all but four states.

Wages and salaries of local government employees grew faster than those in the private sector in every state but Massachusetts.

Spending for education was not a major factor. Government employees not involved in education saw wages go up 79.2 percent before adjusting for inflation, compared to a 65.8 percent increase for those working in education.

—WENDELL COX
and SAMUEL A. BRUNELLI
"America's Protected Class"

ETHICS AND BUSINESS

by Edmund A. Opitz

A few years ago there was an immensely popular television series, named after Dallas. The central character of this show was a powerful and unscrupulous businessman who got that way by climbing over the backs of rivals, manipulating politicians, and wheeling and dealing with shadowy figures on the fringes of the underworld. J. R. Ewing finally got in the way of a bullet, and for months this nation was racked by the question: "Who shot J.R.?" But the civilized man could only wonder why the trigger man waited so long!

Business and the businessman have had a bad press, almost uniformly. Do you remember the television show whose hero was a businessman? The show that portrayed this businessman as a person of integrity and vision, who labored long hours to produce a product that supplied a genuine need, which he marketed at prices people could afford? Who treated his employees with generosity and consideration, and his customers with unfailing courtesy? Who was a devoted family man, active in civic affairs, and a churchman? Who could recite Shakespeare by the yard, relaxed by listening to his fine collection of recorded symphony music, and could tell a Corot from a Monet? Do you remember that show? Perhaps it was a

movie? Actually it was neither. Such a show was never produced; the subject is taboo, by today's mores.

The businessman has rarely if ever been treated fairly and accurately in drama or fiction. Is this because there are no men and women of superior intellect and high character in the world of business, industry, and trade? Not at all. Has the world of business no dramatic possibilities? Of course it has. But the fictional businessman invariably turns out to be the villain. There is a reason why this is so; the businessman is portrayed as a scoundrel because there is an almost universal bias against business on the part of novelists and dramatists. Businessmen do not get a fair shake because novelists and dramatists—with rare exceptions—have an ideological axe to grind.

This is the impression that emerges from our casual contact with the world of popular entertainment, the world of television, films, and fiction. This impression is confirmed in an unpretentious little volume by Ben Stein entitled *The View from Sunset Boulevard*. Stein interviewed a number of Hollywood writers and producers of television shows in order to find out how they viewed the various aspects of American life. If a visitor from England were to spend a little time watching television, what image of America would he come away with? Stein deals with television's treatment of crime, the police, government, the army, the family, and other aspects of American life, including business. How do the people in

Mr. Opitz, an associate editor of The Freeman, served as a member of the staff of The Foundation for Economic Education from 1955 until his retirement in 1992.

This paper was delivered at St. Mary's University, San Antonio, Texas.

Hollywood regard business? "One of the clearest messages of television," Stein writes, "is that businessmen are bad, evil people, and that big businessmen are the worst of all . . . the murderous, duplicitous, cynical businessman is about the only kind of businessman there is on TV adventure shows, just as the cunning, trickster businessman shares the stage with the pompous buffoon businessman in situation comedies." A well known producer, Stanley Kramer, sees business as "part of a very great power structure which wields enormous power over the people." And beyond that, Kramer implies, there is an "arrangement" between business and organized crime: "the Mafia is part of the entire corporate entity now."

The warped feelings of wealthy and talented Hollywood writers and producers did not spring into existence unaided; it is one of the calculated end results of an intense propaganda effort that has been hacking away at the roots of Western society since the middle of the last century—attacking its religious origin, its values, and what is perceived as the last bastion of the bourgeoisie, business. A scholarly work which meticulously researched this vast literature appeared in 1954, by Professor James Desmond Glover of the Harvard Business School, entitled *The Attack on Big Business*. Professor Glover writes: "In volumes upon volumes of testimony before Congressional committees, in popular novels, in learned treatises and textbooks, in poetry, in sermons, in opinions of Supreme Court justices, 'big business' and its works are seen as evil and attacked. The literature of criticism of 'big business,' and of the civilization it has done so much to bring into being, represents by now a perfectly staggering mass of material."

The Anti-Capitalistic Mentality

What is the rationale for this widespread antagonism toward the business system, otherwise known as capitalism? I don't profess to understand all the reasons for the anti-capitalistic mentality, but the root

cause of the antipathy is surely the perception, the mistaken perception, that the relation between employer and employee is that of exploiter to victim. The employer may intend no harm, he may intend only good to those who work for him, but in the capitalistic mode of production—Karl Marx contended—the worker is denied the full fruits of his labor; a portion of every wage earner's product is garnisheed by his boss. To simplify Marxist theory, we might say that John Smith—who runs a machine in a shoe factory—punches the clock at eight o'clock in the morning and works till noon. During these four hours he produces six pairs of shoes, which represent his wage for the day. John Smith returns to his bench and works four more hours in the afternoon, but the shoes he produces during these four hours are expropriated by his employer.

This is a summary statement of the surplus value theory, otherwise known as Marx's exploitation theory. It is a central contention of Marxism that labor alone creates value, the value of a commodity being measured by the quantity of labor normally necessary to produce it. But if it is labor alone that creates value, the value created should belong exclusively to labor. It does not, however; the lion's share is grabbed by the employer while the real producer is paid only a subsistence wage.

This theory overlooks the role of tools and machinery in production. The tool user in this generation is many times more productive than his counterpart of a few generations ago. Why is this? His naked labor power is no greater than that of people over the ages. The enhanced productivity of labor today is due to the tools and machinery at the disposal of every one of us—and those tools are the fruits of the labor of earlier generations. If today's "worker" retained the full product of his individual effort, and only that, the poor fellow would starve.

A contemporary of Marx, the celebrated Austrian economist Eugen von Böhm-Bawerk, demolished the surplus value theory in a book entitled *Capital and Interest*, published in 1884, the year after Marx died. The demolition job has been repeated many

times since the appearance of Böhm-Bawerk's great book, and the consensus of opinion among independent economists is that the surplus value theory does not hold water. The exploitation theory has great propaganda value, however, and it is used unthinkingly by those who are acting out a grudge against business, which, in their distorted vision, keeps the poor locked in their poverty in order that others might be rich.

Ben Stein, in the book mentioned earlier, records a portion of his conversation with television writer Bob Weiskopf:

“Q. Why are people poor in America?

“A. Because I don't think the system could function if everyone was well off.

“Q. What do you mean?

“A. I think you have to have poor people in a capitalist society.

“Q. Why?

“A. To exploit. The rich people can't exploit each other. Consequently they always exploit the poor.”

It is not only Hollywood script writers who profess to believe that the rich get richer only by making the poor poorer. The coordinator of the National Council of Churches' Anti-Poverty Task Force asserts that, “Poverty would not continue to exist if those in power did not feel it was good for them.” A moment's reflection will reveal this insulting accusation for the silly sentiment it is. We live in a commercial and manufacturing society. Our economy is featured by mass production, not only in factories but also in agriculture. The products of mass production flood our stores and supermarkets and showrooms, to be bought by the mass of consumers. Mass production cannot continue unless there is mass consumption; and the masses of people cannot consume the output of our mass production factories and fields unless they possess purchasing power—the money to buy the goods of their choice. To suggest that those who have goods and services to sell have some sinister interest in keeping their potential customers too poor to buy is sheer nonsense! If the president of General Motors wants to sell you a Cadillac or a Buick or a

Chevrolet—which he does—then he wants you to be rich enough to buy. In the free economy, everyone has a stake in the economic well-being of every other person.

It is in the immediate interest of business and businessmen that the masses of people be well off; people who are poor are poor customers, and business cannot survive without customers. Business has no stake in poverty; but there is a class of people who do need the poor, who do have an interest in keeping them poor. Permit me, in a slight digression, to offer you a few words on this point by the celebrated economist Thomas Sowell: “To be blunt, the poor are a gold mine. By the time they are studied, advised, experimented with and administered, the poor have helped many a middle class liberal to achieve affluence with government money. The total amount of money the government spends on its ‘anti-poverty’ efforts is three times what would be required to lift every man, woman, and child in America above the poverty line by simply sending money to the poor.”

Back now to the widespread animus against business, stemming from the false idea that labor is the sole source of value but is not allowed to keep what it produces. In the distorted vision of Karl Marx, business, industry, and trade—as these economic activities are organized in the free world—are intrinsically evil, and the businessman is a parasite and predator. Similar notions are entertained by many a man in the street who has never read a line of Marx, as well as by intellectuals who regard themselves as anti-Communists. Given this climate of opinion, the term “ethical businessman” is a contradiction in terms; it is the figure of speech known to English teachers as an oxymoron—a figure which juxtaposes incongruous terms like “virtuous thief” or “honest liar.”

Now, if businessmen are involved in activities which are intrinsically crooked, evil by their very nature, then it is pointless to discuss the ethical situations of business or the moral dilemmas businessmen sometimes face. It would be like instructing a thief on how to rob banks honestly! So I propose to spend a few minutes trying to

understand the nature of the economic activities that engage businessmen, while touching upon some of the values that are implicated in the production of goods and services.

All Are Sinners

You have a right to know the direction from which I am coming at you, to know my bias. I have examined the catalogue of sins of which businessmen are allegedly guilty, and Lo! they are the very same sins exhibited by people in every other walk of life. We all break the Commandments now and then, every one of us. Businessmen have no monopoly on sin. My mind goes back to a conversation I had several years ago with a professor of economics with years of teaching behind him, who had also served for many years as the academic dean of a prestigious midwestern college. He said to me, "You know, Ed, a thoroughly dishonest man can last a lot longer in teaching or preaching than as a used car salesman." There may be some hyperbole here, but my friend has a point. There are good and bad in all walks of life, and there are very few saints anywhere; but in the eyes of the law all are equal. The law should mete out justice upon the guilty party with impartiality. It should punish those who harass, steal, defraud, breach a contract, assault, or murder. This is the rule of law in action.

There is no justification for the assumption that all businessmen are evil people who must therefore be regulated, i.e., adjudged guilty until proven innocent. There is no more reason for regulating businessmen than for regulating clergymen or teachers!

Who Decides?

The free market economic system produces goods and services in abundance, and it rewards every participant according to his individual contribution—as his peers judge that contribution. "To the producer belongs the fruits of his toil," is an ancient bit of wisdom, as true now as when first uttered. The relation between an individual's effort

and the eventual reward of his exertions is fairly clear in a simple situation like subsistence farming. You work by yourself, preparing the ground in the spring, seeding and tilling it, watering the furrows with your sweat during the heat of summer, reaping in the fall. The abundance of your harvest is directly traceable to your skills and the amount of work you put forth. The greater your effort the more ample your harvest—other things being equal. The harvest is your wage, and your wage in this instance is pretty much determined by your own skill and your own exertions; the more you put in the more you will take out. What you take out is your wage, the economic equivalent of your contribution.

How is your wage determined in a complex division of labor society such as ours? Justice still demands that every participant in the economy be rewarded according to his contribution to the productive process. But how shall we identify each individual's contribution in order to reward him commensurately? Economists from Adam Smith to Ludwig von Mises to F. A. Hayek and Milton Friedman have worked this question over and come up with an answer that is completely democratic and economically efficient, while encouraging every person in the full exercise of his lawful liberties. The answer provided by the economist is: Let the market decide what each person's contribution is worth and reward him accordingly. "The market" describes the process of social cooperation under the division of labor where free people specialize in a complex variety of tasks in anticipation of a consumer demand for the goods and services they produce—followed by multiple voluntary exchanges of these products in which persons give over something they value for whatever they value more. This market process will reward people unequally, but it will reward them equitably, compensating each person in a measure equal to his peers' evaluation of his services.

The eminent economist Frank H. Knight, founder of the Chicago School, put the matter in these words: "It is a proposition of elementary economics that ideal market

competition will force entrepreneurs to pay every productive agent employed what his cooperation adds to the total, the difference between what it can be with him and what it would be without him. This is his own product in the only meaning the word can have where persons or their resources act jointly." In short, each person will get his fair share, defined as what others will voluntarily offer for his goods and services—provided there is general freedom.

Each one of us is judged by his peers; our offerings of goods and services are evaluated by consumers who give us what they think our offerings are worth to them, and not a penny more. This is a democratic judgment on the value of the products of our labor—one dollar, one vote—and it is made by consumers who are, as everyone knows, ignorant, venal, superstitious, neurotic, biased, and stupid. In other words, people just like us—because every one of us is a consumer! When it is a question of the wage we earn we are dependent on consumers, who couldn't care less that we are upright men of sterling character; their sole concern is: Do we have a product or service they want? If we do, they reward us handsomely. If we don't, it matters not that we have labored long and painfully over our brainchild; if the customers don't want it, we're stuck with it. This is consumer sovereignty.

Consumers run the free economy; producers cater to their demands. It's their show. What kind of a show do they put on? Not always a good one, I'm sorry to say. But I'll say one thing for consumer sovereignty: it sure beats the alternative.

Freedom to Excel and Fail

Freedom is a costly thing, and we cannot keep it unless we are willing to pay the price. It is required of each one of us that we firmly adhere to the processes of freedom, even when we can barely stand some of the products of freedom—the products being what people do when given their "druthers." The freer the society the more things people will do that we might find distasteful; this is one of the consequences of freedom,

and we have to school ourselves to accept it. This we have learned to do in two important areas—freedom of the press and freedom of worship. We must learn to be equally tolerant in the areas of business, industry, and trade.

How fares the written word when the masses are relatively literate and free to pick their own reading material, where they themselves select the men and women who will do their writing for them? The highest paid writers may be those whose subliterary efforts jam the boob tube, some of whose opinions I quoted earlier. The magazines and newspapers of largest circulation may be those which cater to our prurient interests. Best-selling novels are forgotten by next year. But as much as anyone might deplore the decline of reading and the low estate of publishing—now that the press is free—no one with any sense would wish to add a Department of Censorship to the already overgrown government bureaucracy. To put the press under a Ministry of Information and Propaganda would be disastrous. Freedom of the press may give every idiocy a voice; authors may not reap a monetary reward commensurate with their literary talents; so be it, we say; it's the price we pay willingly for freedom of the press. Freedom merely allows the budding genius the elbow room he needs to live, and breathe, and write. And books of solid scholarly competence still appear regularly for the small audience which needs the nourishment only the word can provide. My mind goes back to an observation of Ralph Waldo Emerson: "There are not in the world at any one time more than a dozen persons who read and understand Plato:—never enough to pay for an edition of his works; yet to every generation these [works] come duly down, for the sake of those few persons"

Take the matter of religious liberty, the separation of church and state. In a free society people are not punished for belonging to the "wrong" church. They belong to the church of their own choice, or they belong to no church, as the case might be. In any event, the law pays no attention, so long

as no injury is done to person or property. What happens when people are free in the area of religion? First of all, they mangle the phrase "separation of church and state" into my least favorite American shibboleth! Even people who should know better distort and misuse the phrase.

Then there are the so-called "electronic churches," the spellbinders who appear in television; there are the "hot gospellers" who dominate radio every Sunday morning; there are the cults in which people give over their souls to some figure of dubious charismatic allure; there is the new appeal of mystical imports from the exotic Orient; the occult flourishes, along with magic and superstition. And the mainline churches, in many instances, have subordinated theology to dubious economic and political theory. Church bodies support and help finance revolutionary and guerrilla activities. But is anyone campaigning to establish a government Department of Religion? Not to my knowledge. However much we may dislike certain manifestations of religion when belief is free, we shrug our shoulders and tolerate what we dislike as the price of religious liberty.

Some of these same considerations apply to the realm of business, industry, and trade, where, as H. L. Mencken once wryly observed: "Nobody ever went broke by underestimating the taste of the American public." This is all too obvious in what is called the entertainment industry. Here is a hyperkinetic young man, lacking in musical sense, who makes eight million dollars a year by howling and gyrating in public places. Here's another young man, gifted with a high musical I.Q. and years of study behind him. A handful of people appreciate his organ virtuosity and his sensitive interpretation of Bach. He earns a living as a bank teller, directs a choir, and gives an occasional free organ recital. Young people pay millions of dollars to hear the Rolling Stones, while the Boston Symphony has to pass the hat in order to survive. Is this fair? No. Is it a matter for political solution? That would be an even greater travesty of justice.

The Market Economy

Human beings everywhere have engaged in trade and barter. There is some specialization and a division of labor even among primitive people, with a consequent exchange of the fruits of specialization. The voluntary exchange of goods and services is the market in operation, and the market is everywhere. But the market does not spontaneously or automatically transform itself into the market economy; the market economy emerges only when the moral, political, and legal conditions are right. This occurred under the Whig philosophy of men like Edmund Burke and Adam Smith, Thomas Jefferson and James Madison. These men drew up a frame of government whose main purpose was to secure each person in his life, liberty, and property. This political idea of limited, constitutional government is grounded on the religious conviction that we are God's creatures, possessing immortal souls. The conviction that persons are sacred is politically translated into our Creator-endowed rights to "life, liberty, and the pursuit of happiness." Adam Smith referred to his "liberal plan of liberty, equality and justice," with the free market as the economic counterpart to political liberty. The rule of law replaces the arbitrary will of rulers and personal freedom expands. It is significant that *The Wealth of Nations* appeared in the same year as the Declaration of Independence.

The discipline of economics as a separate subject matter was almost non-existent prior to Adam Smith. Virtually starting from scratch, Smith created nearly the whole edifice of economics. Adam Smith presupposed the legal framework of the Whig jurists, where the law would eliminate force from the marketplace, punish fraud, and enforce contracts. He also presupposed a high level of probity in the general population. Given these conditions, the market is self-starting and self-regulating; the buying habits of consumers guide producers, determining how the entrepreneur will decide to combine scarce resources for the maximum satisfaction of consumer needs. There will

be a harmony in these diverse activities of millions of participants as if everything were directed by "an invisible hand." The market economy—dubbed "capitalism" by its enemies about a century after Smith—contained the promise of prosperity for the multitudes. These same masses composed a self-governing people. Political liberty expanded and people had lots of elbow room to pick and choose and plan their own lives.

The Declaration and the Constitution created the political frame for a people who aspired to the ideal of "liberty and justice for all." Political liberty assured freedom in economic transactions between employer and employee, seller and buyer. The work ethic was enshrined in America and wages doubled, redoubled, and doubled again during the nineteenth century—an eightfold increase in real wages. For the first time in history the masses glimpsed the possibility of pulling themselves out of poverty and creating new opportunities for their children. America's schools and churches sought to shore up the traditional value structure of our culture and to orient the newly enlarged popular freedom toward virtue. Their success, needless to say, was only partial.

Was there ugliness in American life? Of course there was. Freedom was misused; the scramble for wealth was sometimes pretty crass. The newly rich were vulgar; plunderers bought and sold politicians, and fortunes were scooped out of the public treasury—all in violation of Whig theory and free market economics. But you cannot blame capitalism for the miscreants who refuse to abide by its rules.

Despite the gray and black areas in our history, there was still open opportunity on these shores, in comparison to what was available in other parts of the globe. Thirty-three million people told us so by coming here as immigrants during the half century before World War I. They came because life here—although far from perfect—was far better for them than life elsewhere.

The business of America is not business. It never was. The business of America is individual liberty, with the law enforcing an

even-handed justice among equal persons. When the law provides a free field and no favor—which was the original implication of *laissez faire*—the economic order is the free market.

The market economy does not carry any implication that business may act irresponsibly with impunity. If, for example, industrial wastes are disposed of in such a way that persons are injured or property damaged, the law should punish those responsible and offer redress to the injured party. If a seller misrepresents a product he is guilty of fraud and the buyer's injury should be redressed. If a businessman solicits and obtains a subsidy from government, or if government gives him monopolistic advantages over his competition enabling him to exact a higher price from his customers, he has forfeited his status as a businessman. A businessman as such has no power over anyone, his only leverage being the quality of his goods and the persuasiveness of his advertising. The businessman has the same rights and the same responsibilities as every other member of society, no more and no less.

Lord Acton's aphorism about power has been overquoted, but it is still terribly true. Power must be curbed if we will that people shall be free, and an independent economic order does put fetters on governmental power. People who control their own livelihood have little to fear from rulers; but political control of the economic life of a nation is totalitarian rule. The market economy curbs power in another way as well; it channels the activities of energetic, ambitious, and competitive personalities into the production of goods and services and away from politics. The rich in a free economy get that way because consumers appreciate the goods and services they offer; and if these few wish their descendants to enjoy this wealth the bulk of it must be invested in industries producing goods for the masses.

The End of Liberty

Let us give credit where credit is due; business, industry, and trade have made us into a prosperous nation. But our wealth has

not made us a happy nation, or a contented one. We have proved once again—as if any further proof were needed—that prosperity and worldly success are, at best, a means to ends beyond themselves. Refine and improve a means as you will, it still remains only a means, needing a worthy end if it is to be meaningful. There is a discipline that deals with ends and goals, with the purposes that make life significant; it is called religion—though not everything bearing that label qualifies. But genuine Christianity is at a low ebb in the modern world; we have lost that vital contact with God and the moral law which energized our ancestors and made life for them an adventure in destiny. The decadence of Christianity is the root cause of the modern malaise; Plato argued two millennia ago that disorder in society is a reflection of disorder in the soul, that is, in

our defective thinking and misguided loyalties. The work of renewal must begin here, with individual persons, and then go on to a restoration of the theological foundation necessary to a free society.

This is not the task of business, industry, and trade; the economic order has a more humble role to play. Business and the free economy beget a prosperous society which provides people the leisure they need to cultivate those goods which mark a high civilization: religion and worship, education and science, arts and crafts, conversation and play. These are the areas where people exercise their freedom most creatively, where they discover the goals proper to human life. Responsible freedom in the economic realm has the important role of supplying the indispensable means for these ends. □

RELIGION AND CAPITALISM: ALLIES, NOT ENEMIES

SPECIAL
REPRINT
EDITION

by Edmund A. Opitz
with a new foreword by Robert A. Sirico

In the late 1960s Arlington House Publishers commissioned Edmund A. Opitz of the FEE staff to write a book-length exploration of the relationship of biblical religion to free market economics. The resulting volume, *Religion and Capitalism: Allies, Not Enemies*, was published in 1970 as a Conservative Book Club selection.

Typical of the response to the book's publication was M. Stanton Evans' comment in *National Review*: "Opitz' volume is a major refutation of the Christian-Socialist, social-gospel view that has become so dominant in Western religious thought....[T]he Opitz book, with its unusual combination of economic knowledge and vigorous theism, is a major breakthrough in the scholarship of freedom."

Edmund Opitz, an ordained Congregational minister, is the founder and coordinator of The Remnant, a fellowship of conservative and libertarian ministers, a founder and secretary of The Nockian Society, and an associate editor of *The Freeman*. He served as a member of the staff of FEE from 1955 until his retirement in 1992.

In reprinting *Religion and Capitalism*, FEE honors the notable accomplishments of Edmund Opitz, and preserves an intellectual legacy for a future generation of Christian scholars.

Published by The Foundation for Economic Education

328 pages, indexed; bibliography

\$24.95 paperback

HOLLYWOOD'S VIEWS OF CAPITALISM

by Raymond J. Keating

Although the movie industry has certainly thrived under the free enterprise system, Hollywood is often unfriendly in its cinematic portrayals of businessmen and capitalism, though there are some exceptions. A visit to your local video store reveals a disagreement among film makers over what capitalism represents. I recently rented movies by three prominent directors—Oliver Stone, Francis Ford Coppola, and Frank Capra. The contrasts were stark, especially between Stone and the latter two.

Oliver Stone's *Wall Street* leads the movie-goer to believe that the securities industry is a rigged game, and that capitalism is inherently corrupt. Hard work as a means to success in the financial community is debunked, only to be supplanted by corruption and law breaking, as securities trading is seen as a game with little or no productive value. Stone presents a harsh judgment on an economic system he fundamentally misunderstands.

Wall Street has come to be the historical revisionists' cinematic representation of the 1980s—the so-called “decade of greed.” It, unfortunately, offers a view prevailing not only in the film industry, but in academia and the media as well. In many ways, *Wall Street* perpetuates a class warfare myth, with contrasts being drawn between so-

called haves and have nots, or the bourgeoisie and the proletariat.

The movie's antagonist is Gordon Gekko, a corporate raider. Gekko's speech at the stockholders meeting of Teldar Paper, his takeover target, is meant by Stone to reflect the corrupt nature of capitalism. In fact, Stone managed—knowingly or not—to provide a glimpse of why corporate raiders provide a *positive* service in a free market economy. Gekko states:

Teldar Paper has 33 different vice presidents, each making over \$200,000 a year. . . . Our paper company lost \$110,000,000 last year, and I'll bet half of that was spent in all the paperwork going back and forth between all these vice presidents. The new law of evolution in corporate America seems to be survival of the unfittest. . . . I am not a destroyer of companies; I am a liberator of them. The point is, ladies and gentlemen, that greed—for a lack of a better word—is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms, greed for life, for money, for love, knowledge, has marked the upward surge of mankind. And greed—you mark my words—will not only save Teldar Paper, but that other malfunctioning corporation called the United States of America.

Raymond J. Keating is New York State Director of Citizens for a Sound Economy.

Greed or Self-Interest?

The word “greed” in such a speech is Stone’s carrier of corruption. It is his word of choice designed to elicit a specific response from the movie-going audience. After all, how could one view greed favorably? In fact, “self-interest” would have been a more apt term, which was understood over two centuries ago by Adam Smith, the father of capitalism. Smith wrote in *An Inquiry into the Nature and Causes of the Wealth of Nations*: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.” Self-interest removes the judgmental nature of Stone’s presentation, while encompassing not only greed, but also industry, charity, self-improvement, and altruism—i.e., any human motivation.

Gekko’s later statements lend greater clarity to Stone’s view of the world. In reference to a Gekko plan to liquidate the holdings of an airline company, Budd Fox (the movie’s symbol of redemption as he in the end rejects the greed Gekko represents) asks, “Why do you need to wreck this company?” Gekko’s answer: “Because it’s wreckable!” Stone views the breakup of a firm as pure destruction. He is unable to understand what Joseph Schumpeter termed “creative destruction.” That is the notion that resources might be more efficiently used if freed from less profitable ventures and reinvested elsewhere. This is the dynamic aspect of capitalism that allows for renewal and growth.

But the essence of Stone’s limited vision is captured in Gekko’s definition of capitalism: “It’s a zero sum game. Somebody wins, somebody loses. Money itself isn’t lost or made, it’s simply transferred from one person to another—like magic. This painting here, I bought it ten years ago for \$60,000. I could sell it today for \$600,000. The illusion has become real, and the more real it becomes, the more desperate they want it. Capitalism at its finest. . . . I create nothing. I own. . . . You’re not naive enough to think that we live in a democracy, are you, Buddy? It’s the free market.”

Stone does not understand that wealth can be created, not merely shifted around, and that the free market provides the incentives for individuals to create, innovate, and take risks. He sees a rise in the price of a painting as the pinnacle of capitalism. In fact, it is in those nations that have rejected free enterprise where the only source of value is to be found in a painting, for little else is created.

Wall Street presents a view of capitalism as being controlled by the few at the expense of the many—democracy versus the free market in Gekko’s words. Stone does not understand the nature of an exchange economy, missing a fundamental point that in a free enterprise system, one must first supply a service or good in order to demand; i.e., even the most greedy individuals must supply something that fulfills the needs or wants of another individual in order to participate in an exchange economy. Individuals vote with their dollars, if you will. The phrase “democratic capitalism” seems quite natural, for example, while “democratic socialism” seems oxymoronic.

A Man and His Dream

In direct contrast to *Wall Street* is Francis Ford Coppola’s *Tucker: The Man and His Dream*. I will not venture here to analyze the historical accuracy of this film about Preston Tucker. It is the message that concerns me. While Stone views the fundamental conflict in a capitalist system as being between rich and poor, *Tucker* presents a more accurate conflict—between a partnership of big government and big business versus the entrepreneur, or entrenched interests versus dynamic change.

Tucker is the story of a man who sought to build a better automobile, and therefore challenged Detroit’s Big Three auto makers. As Tucker exclaims, “That’s the whole idea—to build a better mouse trap.” His partner’s response—“Not if you’re the mouse”—signals the ongoing conflict. *Tucker* illustrates how a special interest seeks government protection from the forces of competition, i.e., from the forces exerted by innovators and risk takers. It

brings to life the clash between the bureaucratic mind and the entrepreneurial.

One character representing old-guard bureaucrats states: "A well-run corporation doesn't waste money to research innovations, unless of course, keeping up with the competition demands it."

In contrast, Preston Tucker's closing speech expresses the critical role of entrepreneurship:

We invented the free enterprise system where anybody, no matter who he was, where he came from, what class he belonged to, if he came up with a better idea about anything, there was no limit to how far he could go. I grew up a generation too late I guess because now the way the system works, the loner, the dreamer, the crackpot who comes up with some crazy idea that everybody laughs at that later turns out to revolutionize the world, he's squashed from above before he even gets his head out of the water because the bureaucrats, they'd rather kill a new idea than let it rock the boat. If Benjamin Franklin were alive today, he'd be thrown in jail for sailing a kite without a license. . . . if big business closes the door on the little guy with the new idea, we're not only closing the door on progress but we're sabotaging everything we fought for, everything the country stands for.

Tucker: The Man and His Dream tacitly acknowledges that wealth can be created, and that the entrepreneur is the driving force of wealth creation and economic growth. Such entrepreneurship is evident in practically all aspects of a free enterprise system, including the securities industry which *Wall Street* condemns. For example, various financial instruments that provide for liquid markets and allow both small and large firms to raise financial capital are the products of hard-working entrepreneurs (junk bonds included). Not to mention that entrepreneurship is quite evident in the insights of many corporate raiders who are able to see added value where others cannot.

The two views of government presented in *Wall Street* and *Tucker* are instructive as

well. In *Wall Street*, stock market regulators act as saviors, cleaning up what unbridled capitalism has wrought. In *Tucker*, the Securities and Exchange Commission does the bidding of powerful politicians and special interests in crushing the entrepreneur.

Frank Capra's America

In the end, perhaps it was movie director Frank Capra who saw things most clearly. Few free market advocates can suppress a smile when viewing the scene from *You Can't Take It With You* in which Lionel Barrymore's character, Mr. Vanderhoff, gives an IRS agent a hard time. The playful exchange includes the following:

IRS AGENT: "Our records show that you have never paid an income tax."

VANDERHOFF: "That's right."

IRS AGENT: "Why not?"

VANDERHOFF: "I don't believe in it."

And later, it continues:

VANDERHOFF: "What do I get for my money? . . . I wouldn't mind paying for something sensible."

IRS AGENT: "Something sensible. What about Congress and the Supreme Court and the President? We gotta pay them, don't we?"

VANDERHOFF: "Not with my money."

Capra often brought out America's healthy skepticism of big government in his movies (*Mr. Smith Goes to Washington* is one example). However, in *It's a Wonderful Life*, Capra truly presented a wide range of human behavior. Some individuals, like Mr. Potter (again Lionel Barrymore), stole and sought to monopolize, while others, Jimmy Stewart's George Bailey, sacrificed for others while still seeking a better life for his family. It is the individual who must take ultimate responsibility for his actions.

The free enterprise system is not inherently corrupt. In fact, it is morally superior to other economic systems, not only because it is the most productive—lifting individuals out of squalor—but because it is based on free, individual action. When compared with the centralized, coercive nature of socialism, it is clear that capitalism does



BETTMANN ARCHIVE

Frank Capra (right) on the set of "Mr. Smith Goes to Washington" with Jean Arthur and Jimmy Stewart.

provide for a wonderful life, where individuals can make the most of their abilities. It is only when government steps in the way that the dynamic, creative nature of the free enterprise system is stymied. Yet, even as Preston Tucker's automobile company was brought down by special interest and big

government, the final scene of *Tucker: The Man and His Dream* has Tucker, the innovator, sketching a new idea for little kerosene refrigerators that would allow even the poorest of people to keep milk cold. One might say that is truly "Capitalism at its finest." □

The Role of Proper Conduct

BUSINESS" is a product of civilization and it cannot exist for long in the absence of a specific constellation of conditions, chiefly moral, which support our civilization. The economic ingredient in the constellation is, as we shall see, free competition. But free competition cannot function unless there is general acceptance of such norms of conduct as willingness to abide by the rules of the game and to respect the rights of others, to maintain professional integrity and professional pride, and to avoid deceit, corruption, and the manipulation of the power of the state for personal and selfish ends.

—WILHELM ROEPKE

IDEAS
ON
LIBERTY



AMERICA'S IMPENDING BRAIN DRAIN

by Fulton Huxtable

Most commentators on the subject of what lies in the future generally begin—and end—their discussion by citing facts and figures concerning the demographic makeup of the population of the United States.

They will, for instance, point to the declining birth rate of the past 30 years, and correctly draw the conclusion that there will be fewer persons entering the labor market between now and the year 2000. Such commentators might also point to the alarming, steady decline in the test scores of our students and conclude that there will be fewer workers with the needed basic skills entering the market in the next few years.

While all of this is true and instructive enough, the threat to this country's future brainpower—our prospective engineers, scientists, and professionals of every type—is far more serious and far more insidious than most imagine. Many individuals are not even aware of the process which is gradually destroying the minds of so many of today's young people.

A Child of the '40s

To help you see what has happened in this country, let me briefly recount the story of someone I have known all of my life. This goes back nearly 50 years to 1943, when this

Fulton L. Huxtable is president of Huxtable Associates, Inc., in St. Charles, Missouri.

person began his life. The world then was quite, quite different from the one he would grow up in if he were born today.

This boy grew up in a small, rural community in Arkansas and in a family of modest means. He listened to Sky King and Sergeant Preston on the radio. He went to the local movie theater nearly every Saturday to see Roy Rogers, Gene Autry, and all the other heroes of the big screen. This boy *idolized* these people. When he grew up, he wanted to be just like them, to be heroic and do important things in life.

When television came to the household in the mid-'50s, he loved to watch Superman and the other heroes. Again, he wanted to be like them. They inspired him to try to make something out of himself.

In school, he was a good student and it was important to him to learn and do well. He had good teachers who encouraged him.

Life suddenly changed for this kid, at the age of 14, when his father went broke, losing virtually everything. His father lost the home he had owned, the family car was repossessed and, before it was over, the lights in their rented house were periodically turned off because the electric bill hadn't been paid.

But the boy, remembering his heroes, faced the fears brought on by suddenly not having money and went to work. He did everything: he got up at 3:30 in the morning to deliver papers, he mowed yards, he ran

the popcorn stand at the local dime store, he drove a tractor for one of his Dad's friends, and had more jobs in high school than there is room to write about.

He excelled in high school, despite the hardships and the fact that he was the oldest of seven kids, growing up in a small, three-bedroom home. He was absolutely determined to get an education, because he saw education as the key to his future, as the way to get out of the grinding poverty. He worked his way through both undergraduate and graduate school and eventually went on to establish his own business and achieve a fair degree of success.

A Child of the '70s

Now, consider how this same person might have turned out, today, if he were born in, say, 1970. What might make things turn out differently?

Well, let's try to recall the kinds of movies and television programs during the early '70s. By that time, the heroes of the late '40s and '50s had disappeared, replaced by what were openly called anti-heroes who possessed none of the admirable qualities projected by heroes. Heroes were made laughable, silly, and the objects of ridicule in both television and in the movies.

Broadly speaking, a hero is someone who is committed to doing what is right and has the courage to act according to his convictions. Such an image is important to children (and to adults), because it provides us with a vision of what one should be as a person. Some specific heroic qualities, such as courage, honesty, and integrity, are essential for a young person to learn. And, as one grows up, one learns that it isn't necessary to chase criminals to be a hero. It is the *principle* which is important to learn: do what you think is right, struggle to achieve something important.

Now, would that young man, born in 1970, rather than in 1943, develop an heroic vision of what his future life should be? It isn't likely and, if he did, he certainly couldn't have gotten it from the movies and television programs of the '70s and '80s.

And what might he have done if, say, in 1984, his father had gone broke? Would he, a 14-year-old, have struggled and endured unspeakable hardships to work at every job he could get in order to make it? Maybe, but again, it isn't likely. In 1984, the government offered food stamps, housing assistance, and all sorts of other things to supposedly take the sting out of poverty. Never mind that such programs create a class of people who become dependent on the government, that they destroy self-reliance as a virtue in our young people and actually *perpetuate poverty* because people never learn how to take care of themselves.

Why should that young man, born in 1970, make the excruciating struggle to get an education and rise above his poverty, if nothing is important in life, if there isn't anything worth the struggle (the lesson conveyed by the anti-heroes), and if the government will take care of his needs anyway? Increasing numbers of our young people are deciding there isn't any point to making the struggle.

And lest anyone think I am hardhearted and "don't understand" what it's like to be poor and uneducated, let me tell you that I am the kid born back in 1943 and his story is my story.

Don't misunderstand me: each person has a choice about what he or she will be. A few individuals manage, somehow, to buck the bad trends of their particular era. However, the sad fact is that most young people follow the prevalent values of their time. If the prevailing view is that being a hero is silly, old-fashioned, and out of touch with reality, believe me, most young people will not try to be heroic and will not struggle to achieve something important in their lives.

The anti-heroic view so prevalent in the '70s and '80s (and which continues to this day) wasn't confined merely to television and the movies; it has permeated *every* cultural outlet: books, novels, plays, music (especially the kids' music) and, worst of all, *our teachers*.

If a young person, born in 1970, has managed to achieve and preserve any heroic sense, any belief in such things as truth,

certainty, and political freedom, he or she may well encounter a brutal assault on those beliefs in college.

In college, his teachers will claim that there are no absolutes (but they are certain about *this* being an absolute), that there is no right or wrong (but they are sure *this* is right), that there is no certainty in life (but they are *certain* of this), that life is a pathetic farce (on this count, they are partially right, but only as it applies to their own lives), that we are all victims of our surroundings (let them speak for themselves), and that the government is the solution to all of our problems.

In case you think I am exaggerating, let me tell you that all of these things were being routinely taught by professors in the '60s. I was there and I know. And they are teaching the same things and worse, today.

I can recall, nearly 30 years ago, telling my Dad about what was being taught in college. He was skeptical, thought I was perhaps guilty of youthful exaggeration, and found it hard to believe that anyone would teach such things. In any event, he didn't think anybody would believe such things, so he thought the teachings of my professors would be of no practical consequence. This mistaken perception underscores the insidiousness of this destructive process.

Scores Decline as Values Are Eroded

Let's go back now to the declining test scores of our youngsters, scores which have been declining for more than two decades. Do you begin to see the connection between those scores and the anti-heroic, anti-certainty, anti-right-and-wrong culture of the last 30 years? What is the point of struggling to learn to read, to master mathematics, or to write, if there are no absolute values worth preserving?

You will not see reports on the evening news about the staggering casualties at the hands of our cultural and educational institutions (the fact that you don't is a disgrace). The exception is an occasional story about the number of students who *graduate*(!)

from high school but cannot read or solve simple mathematical problems. The widespread waste of our young minds casts a dark shadow on the future of our country.

When you see destruction on such a wide scale—the declining test scores, the rising use of drugs, the decline of self-reliance and honesty as virtues—there can be only one cause: the ideas which are being spread by our cultural institutions and, most especially, by the teachers in our universities.

America's Brain Drain

One normally associates the term brain drain with the situation that has occurred in countries with centrally planned economies: the best minds flee the country. This disappearance of engineers, doctors, scientists, and professionals of every sort devastates that country's economy.

However, America's brain drain is and will be different: the best minds will not, for the most part, leave the country, *they simply will never develop*. In increasing numbers, young men and women will simply give up the quest to develop their minds to the fullest. After all, they have been taught all of their lives that it is foolish to carry on the struggle of the hero, to attempt to do what's right (right?—a foolish concept of the ignorant and uneducated, according to the teachers) and achieve great things (great?—nothing is great and if it were, no one could define it).

There is, however, an element of America's brain drain which will be and is now similar to what has occurred in socialist countries: professionals of every sort are retiring at an abnormally early age. This early retirement isn't the result of the well publicized downsizing of America's corporations. This is the result of people quitting their professions out of disgust and weariness. Most of the evidence for this phenomenon is largely anecdotal, but it is happening at an accelerating pace.

Doctors are retiring from medicine at an early age because encroaching government policies and our runaway legal system are threatening their very existence. Small busi-

ness owners are shutting their doors because they are tired of the hassle of government regulations, which make their businesses increasingly unprofitable, and out of fear of lawsuits. If you think long enough, you can probably think of someone you know who has quit his profession because of disgust with government intervention, bad employees, or the increasingly hostile legal environment.

There are countless other professionals, in all walks of life, who would retire today if they could afford to do so. Virtually everyone, including you, knows someone who falls within this category.

And then there are the potential businesses which will never be started. To start a business requires guts, heroism, dedication, vision, and *political freedom*—the very things which our cultural institutions have sought to destroy.

The president of a company in Indiana recently told me a haunting story of a young man who was one of the brightest and most talented individuals in his industry. The young man had considered starting his own company, but finally decided it wasn't worth it: too many problems with government regulations, lawsuits, and employees. If this young man had started out back in the '50s, he probably would today be the owner of a business employing dozens of people. But not today.

Hope for the Future

There is still hope for the future of this country, but only if we seize upon a dramatically new approach to education, one which will reverse the destructive trends which have been produced by an entrenched bureaucracy of educators who are dependent upon government funds for their livelihood and who have a vested interest in promoting the government as the solution to all of our problems.

The quickest way to begin the reversal of the current brain drain is to *eliminate* any and all government involvement in education. This is, I know, going to strike most as radical, and it is.

Consider the following. The decline in our students' test scores roughly coincides with the rise of government spending on education, most especially on the federal level. The more the government spends, the worse the results. Throwing more money into this bottomless pit is futile. Apart from the fact that it is morally wrong for a government to use force to take your money to pay for education, state-run schools, with few exceptions, have done an atrocious job of educating our young.

However, the most important issue here is one of individual rights and property rights. Remember, the government is an instrument of force. It can either be the protector of rights, property, and liberty, or it can be the greatest threat to these things. Today, the government is the greatest threat to our freedom, and our individual property rights. What does this have to do with education? More than most realize.

If your neighbor came to your front door with a gun in his hand, demanding money to pay for his kids' education, you would consider this wrong. It is nothing more than theft, notwithstanding the worthiness of his cause. However, if that same neighbor, rather than robbing you directly, goes to the voting booth and votes for a property tax, which will force you to give up money to fund public schools, you might not like it but you probably wouldn't consider it robbery. However, the truth of the matter is that your neighbor is using the government's power to take your money, and it is as if he had robbed you at gunpoint. The only difference is that he's getting the government to do it for him. This isn't right and no one can justify the use of government force in this manner. Such action is a violation of individual rights and of your property rights.

In a free society, you would be free to pay for your own children's education (or someone else's, if you so desired) or contribute to the institution of your choice. Each student attending school would do so by choice and would *want* to be there because he *wanted* to learn. Today, you are *forced* to pay for programs, courses, and teachers imparting ideas you would not voluntarily support.

Freed of the burden of paying taxes for education, you would have the funds to pay for private education. And, contrary to popular belief, private education would be comparatively inexpensive and affordable. Competition would make education affordable and widely available.

The quality of education, with the elimination of public schools, would rise dramatically. These schools and their teachers would have to compete for your business. There would be a strong incentive for the schools to provide the very best results for your children *and to teach the best ideas*. The schools and teachers would be responsive to your concerns because you would be free to go elsewhere if you were displeased. Today, few parents have that choice because few can afford to pay the taxes for public education and also pay to send their children to private schools.

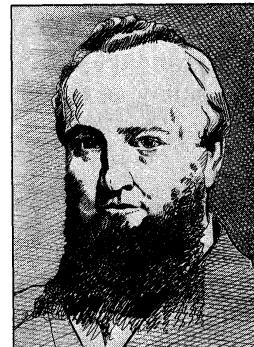
Dismantling publicly funded educational institutions will not, by itself, eliminate the forces which have created America's brain drain; but privatizing education will establish the precondition for destroying these forces.

Today, our public educational institutions are heavily dominated by teachers who are committed to a philosophy of anti-certainty, anti-right-and-wrong, and anti-freedom. In a free market system of private education, few parents (and few students) would pay for courses which teach such a philosophy if they were spending their own hard-earned money. They would seek out those teachers who have something better to offer, thereby creating an opportunity for teachers who have something better to offer. Today, those teachers who disagree with the academic establishment are virtually shut out of our educational process.

A free market system of private schools will bring out the best ideas from our teachers and bring out the best in our students, thereby creating the beginnings of the reversal of America's brain drain and opening the road for an intellectual and economic renaissance in America. That shining vision of America, the vision projected by the Founding Fathers, will, once again, have a chance to be seen by our young, and light the way to a bright future for us all. □

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

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(616) 454-3080

CLASS EXCLUSION NOTICE

The Airlines Antitrust Litigation
P. O. Box 275
Mt. Royal, NJ 08061-0275

Dear Sirs:

My wife (Lois) and I (Virgil) recently received notices (copies attached) indicating that we are members of the Class.

From reading the notices, we see that we qualify to file via AIRLINES ANTITRUST LONG CLAIM FORM C.

1. During the period January 1, 1988 to June 30, 1992, Lois and I have bought airline tickets and flown. In addition, we have bought tickets for our two sons so they could make various flights. And we have also bought tickets for my dad so he could make various flights. We have purchased tickets in all of those years.

2. Most of our flying has been on one of the airlines listed, namely, Delta. We have probably flown on one or more others, but I haven't checked to verify for sure.

3. We have flown in and out of several of the airports listed in the notices.

4. Attached are copies of recent VISA card charges that illustrate that we qualify.

Lois and I are writing to *request exclusion* from the Class.

We hope that we are two of a sufficiently substantial number who want to be excluded from the Class so that this whole sordid undertaking gets terminated.

I quote from the notice, Section I, BACKGROUND OF THE LITIGATION:

The lawsuit charges that during the period

January 1, 1988 to June 30, 1992, the airline defendants and ATPCO violated the antitrust laws by engaging in an unlawful conspiracy to fix prices for domestic air transportation and to allocate certain airline markets and airports and that, as a result, prices for airline tickets for such flights were higher than they otherwise would have been.

That foundation for the lawsuit is so ridiculous that any judge worth his salt should throw the suit out immediately. Let us just give you some examples that come to mind.

1. First and foremost, it is obvious to the most casual observer that concern for those of us who paid airline ticket prices "that were higher than they otherwise would have been" has nothing whatsoever to do with the real motivation for the suit.

Anybody who knows the slightest thing about what is going on can tell that the plaintiffs' lawyers see an opportunity to make a fortune by attacking a group of businesses that the lawyers perceive as having deep pockets.

If the lawyers really had so much concern for how much we travelers pay in airline tickets, they would have started one or more airlines of their own and charged us less.

What the lawyers for the Class are trying to do is get some kind of government-

approved theft, all in the name of the Class. Then the lawyers will pocket huge amounts of money for themselves.

This kind of legal harassment will drive airline prices up a whole lot more than the supposed price-fixing conspiracy claimed in the lawsuit.

2. Secondly, there may be antitrust laws on this subject, but if I were on the jury trying this case, I would vote to invalidate those laws.

If a person knows anything about economics and business, he knows that the only kind of monopoly that can be created and sustained is one created and sustained by government power. Thus, if the airlines are truly deregulated, like they should be and supposedly are, no one airline nor even all of them working together could create and sustain a monopoly.

For heaven's sake, inflation-adjusted airfares have been less since deregulation than previously when the federal government conspired to fix prices, routes, airport slots, and the whole rest of it. Anyone watching this year's airfare wars knows that it's a tough, *competitive* business. So much so that the airlines are lowering fares to the point of being non-profitable.

Not even the multi-governmental Organization of Petroleum Exporting Countries [OPEC] can keep its cartel working the way the wrongheaded antitrust theorists proclaim; gas prices are lower now than they were years ago. That's due to worldwide competition, not antitrust laws. The antitrust laws should be thrown out along with this lawsuit.

3. Thirdly, all of us that bought airline tickets did so freely. No airline used any kind of force, intimidation, extortion, threats, or anything else of that type to make us buy their tickets or fly on their airline. We did it

voluntarily. We *must* have gotten a good value, or else we wouldn't have done it.

You know, we could have driven our cars, or taken a bus or train, or even stayed home.

So, even if the airlines did work together to fix prices, routes, airports, etc., that is totally irrelevant. We bought their product voluntarily; and we're glad we did.

And that is more than can be said for this Class action lawsuit. The lawyers for the Class caused us to be included involuntarily—we want out of the Class. Furthermore, they are forcing taxpayers to fund their crazy game; it costs money to run the governmental side of this type of undertaking. And then airlines (and lots of other businesses, too) have to increase their prices in order to have money to fend off this type of harassment.

4. We say the lawyers for the Class are the guilty ones. The case should be dismissed. The lawyers for the Class should not be awarded even \$1.00! They should be severely reprimanded and told to never start this type of suit again.

Let us say it one more time. If the lawyers who have hatched up this attempt at governmentally approved theft were so concerned about the airline ticket prices we travelers pay, those lawyers would start and run one or more airlines and set their prices lower than their competition. The fact that they haven't even attempted to do that is conclusive proof that they are not really interested in the price we pay for plane tickets.

Sincerely,
Virgil L. Swearingen
Lois A. Swearingen

Mr. and Mrs. Swearingen, who describe themselves as "ordinary citizens who fly on airplanes," reside in Fresno, California.

SCHOLARSHIP, LEADERSHIP, AND PUBLIC WORKS JOBS

by William R. Allen and William Dickneider

Universities have a special mission. Not only do they teach the accumulated lore and wisdom of the tribe, but they also push out the boundaries of knowledge. Teaching and learning old truth, much less discovering additional truth, require uncommon characteristics. Students and professors are to be insightful, honest, and dispassionate—hardheadedly adhering to the highest standards of logic and evidence.

Alas, there is much dribbling between the cup of ideal and the lip of reality. There are of course, scholars who struggle effectively and fruitfully with important problems and issues. But the campus is infested with soft and silly charlatans who rely, not on disciplined sense, but on emotional sensibility, on persuasion only through rhetoric, on pressure of ideology, on charisma rather than comprehension.

A campus newspaper essay illustrates the point. Written by a graduate student of history, the article discerns (as all campus newspaper essays do) grievous problems—poverty, drugs, unwanted pregnancies, mental disease, homelessness. After listing the problems, the essay makes no attempt to

*William R. Allen is professor of economics at UCLA; he and William Dickneider collaborate on the *Midnight Economist* radio program, syndicated by the Reason Foundation of Los Angeles.*

explain their causes. Nor does it try to use knowledge of how the world works to suggest even limited strategies of marginal improvement. Rather, it only pleads for comfort, general reassurance that (in ways admittedly mysterious) a government leader will resolve our pains and frustrations.

But where are these reassuring leaders? We are political orphans. “I would give anything,” the author cries, “to hear” Franklin Roosevelt and Lyndon Johnson “once again calling the nation to arms in a war against poverty.”

Whining for leadership from someone in the White House or on a white horse will not give us prosperity or freedom. Nor will it give us more jobs. Yet, with employment slumping, politicians, like university poseurs, would have us believe in a simple solution. With vast public works projects to build and rebuild so-called infrastructure—roads, bridges, sewers—we could increase jobs.

Maybe we have neglected our infrastructure. Perhaps we would be more productive if we invested more in maintaining and expanding such basic capital. But the condition of our infrastructure commonly is not the central issue. The more immediate question is whether government spending would increase total employment.

Public works programs clearly would di-

rectly create specific jobs. But expansion of public works jobs is likely to cause jobs to contract elsewhere, with little net change in employment. Other employment will contract because federal expenditures on public service jobs must somehow be financed. If the federal government is to increase spending for public works, then it must reduce other government expenditures, raise taxes, or deficit-spend.

If government reduces spending for other programs, such as national defense, then fewer workers will produce guns. Or if government reduces transfer payments to individuals, then fewer workers will produce the butter that beneficiaries would have demanded. In either case, decreases in federal expenditures in one area to make room for increases in public works will not increase total employment.

Instead of curtailing some of its other spending to increase expenditures on public works, government might curtail private consumption and investment by raising taxes. With private spending down and government spending up, public jobs are traded for private jobs, but total employment is not increased.

If, alternatively, government finances the expansion of public works by enlarging its already-swollen deficit, then it will either have to borrow existing money or create new money to pay its increased bills. If it is to borrow existing money from the community, government would compete more intensely with businesses and households for scarce credit. More credit would then go to government and less to private firms and individuals. Government spending of borrowed funds would displace private spending of private funds. Again, some jobs are traded for others.

Finally, what if government financed its increased deficit spending by creating new money? In this instance, spending would not fall in other areas, so new public works jobs would not reduce other employment—initially. But down the line, increased

money creation, if continued fast enough long enough, will raise prices. And higher prices—which are a form of taxation—would threaten future productivity and employment. We would then obtain a bit more force-fed employment today at the expense of less employment and more misery tomorrow.

No matter how government finances it, greater spending for public works jobs is not likely to increase the total number of jobs. Economic thinking leads to this conclusion, but does history support it?

Our economy is not a laboratory in which experimentation easily yields conclusive evidence. But we can look at how government spending in general has related to total employment.

From 1960 to 1992, bigger increases in federal spending were *not* typically associated with larger increases in payroll employment. Indeed, the loose relationship that existed over those three decades is quite the opposite. Faster growth of employment has been associated with slower growth of federal spending; and slower growth (or reduction) of employment was more likely when federal spending grew faster.

In 1975, government spending exploded by more than 23 percent, and employment change was actually negative; in 1980, spending shot up by over 17 percent, and employment was virtually constant. To take longer illustrative periods, from 1962 to 1966, spending rose at a below-average annual rate of 6.7 percent, and employment expanded robustly at 3.4 percent. In contrast, from 1975 to 1981, spending surged at 14.2 percent per year, and employment rose at only 2.2 percent.

Like poverty, homelessness, and other complex problems, today's sluggish employment growth has no easy solution. We can do better than we have done in sustaining a vigorous economy. But it should be apparent, even to the denizens of academia, that government cannot simply and surely spend us to rapidly expanding employment. □

THE FORGOTTEN CONSUMER

by Eric-Charles Banfield

Frequently both sides in an argument are wrong. When looking at free trade and free-market issues, both opponents and proponents invariably focus only on the producer side—how many jobs will directly be created or lost—and both sides completely ignore the effect on the consumer and his role in economic growth. With a poor understanding of the market process, both sides make false arguments.

Last year former U.S. trade representative Carla Hills debated Senator Don Riegle about the potential effects on jobs of the North American Free Trade Agreement (NAFTA). In committee testimony and on business news shows, Senator Riegle said Americans in several industries would lose jobs to Mexico (and Canada), and that only bankers and other financial-sector employees would gain. Ms. Hills countered that U.S. firms in many sectors would be able to sell more goods and services in Mexico and Canada, and that means more jobs for Americans.

Framed that way, the issue seemed one of netting out the “gainers” and “losers,” all in terms of “how many jobs.” The debate degenerated into a “sector analysis,” with Hills and Riegle sounding like stockbrokers arguing over which industries to invest in. Worse, Hills fell into Riegle’s trap: Neither

debater ever used the word “consumer,” the real reason for free trade.

The misguided “jobs” focus hits close to home, too. Wal-Mart founder Sam Walton’s death led many to eulogize his great business achievements. But many in small U.S. towns and even some urban areas reacted critically, saying the emergence of Wal-Mart stores, with their low prices and good selections, drove their local but expensive mom-and-pop stores to ruin. The issue to them was “jobs.” Again, no one mentioned the consumer.

In both cases, debaters (and the media airing their views) made the same mistake: looking at free trade and free markets as primarily a jobs issue, and completely ignoring the consumer issue: That trade means competition and lower prices for consumers, and that helps economies. In economic terms, they focused on the possible loss in “producer surplus” and ignored the certain gain in “consumer surplus.”

If Not for Jobs, Then Why Free Trade?

Freer trade creates tremendous economic benefits. A bottom-up process, it diffuses its effects across all markets and at all stages of production. Lower tariffs and increased competition reduce prices to consumers, enabling more people to enjoy the benefits of goods and services at prices lower than they

Eric-Charles Banfield is owner of Banfield Analytical Services in Westmont, Ill.

were willing to pay before, and in greater quantity. That increased consumer surplus means either:

(1) more money available in people's budgets to buy an additional quantity of goods and services, adding to demand and growth; or

(2) more money to save, adding to investment and capital formation; or

(3) higher-quality goods at the same price and in the same quantity.

Those direct, primary benefits, valuable in their own right, should be sufficient to make the case for free trade, regardless of jobs.

If jobs are still at issue, then the free-trade case is yet stronger. Those three consumer benefits mean:

(1) greater demand for goods and services from producers and suppliers, which creates jobs;

(2) more credit and capital for new ventures, which creates jobs; and

(3) a higher standard of living, which certainly can't hurt jobs.

Yet both opponents and proponents obscure the solid demand-side case for free trade by emphasizing employment, a secondary consideration.

Creative Destruction

In the perpetual motion of economic change, jobs are constantly destroyed and created. A freer level of trade, especially if brought about suddenly, will no doubt destroy some jobs in some sectors, but will create jobs in probably every sector of the economy. □

The Function of Protectionism

THE main function of tariffs and other protectionist devices today is to disguise the real effects of interventionist policies designed to raise the standard of living of the masses. Economic nationalism is the necessary complement of these popular policies which pretend to improve the wage earners' material well-being while they are in fact impairing it.

—LUDWIG VON MISES, *Human Action*

Politically, that's the trap. As Frederic Bastiat said in 1848, "there's what you see and what you don't see." Observers will be able to see fairly clearly which jobs are destroyed by competition from cheaper suppliers. They'll find it much harder to identify, on the other hand, which jobs have been created by the diffuse benefits that accrue to consumers.

An auto or textile plant can lay off workers, and cameras can capture that on the evening news. But who will notice that increased consumer demand and capital availability will cause thousands of small businesses to start? Politicians won't be able to point to a new job and say "free trade created that job," but they can point to a layoff at a textile plant and say "free trade destroyed that job." That's why "jobism" is such a common campaign tactic.

Try Some Real Populism

But if people want to use populism to bolster their case for or against free trade, why appeal to employment? Better to appeal to consumers: Everyone is a consumer. Everyone will save money from lower tariffs and increased competition. What could be more "popular" than that?

But even alleged supporters of free markets fail to make the proper appeal to consumers, letting the opponents set the parameters for the discussion. That could cost them the debate. Unfortunately, if they fail to make the proper case for free trade, it is consumers who will face the greatest cost, quite literally. □

IDEAS
ON
LIBERTY



THE CASE FOR SHOPPING AT KROGER

by Anthony Woodlief

The Kroger grocery workers in my section of Michigan recently ended a strike of several weeks after management gave in to some of their demands for higher wages and benefits. Most of my friends and acquaintances refused to shop at Kroger while the employees were on strike and were shocked that I did not join their boycott. When they visited me, some even asked for assurances that the food I was serving had not been purchased from Kroger. The University of Michigan graduate student teaching union, to which I am forced to pay dues, organized members to help the Kroger workers picket and harass customers. Union officials and opinion columnists assailed us non-boycotters in print with arguments about how Kroger was denying its employees "justice" and "fair" or "decent" wages. To them we were just "classists" who don't care about the American worker.

One does not have to be a bleeding heart liberal to be concerned about the condition of low-wage workers, however, any more than one has to be a Social Darwinist to reject the arguments of the strikers and their sympathizers. Not only was it possible for those of us who cared about the conditions of low-wage workers not to support a boycott of Kroger while its workers were on

strike, it was in fact the best way to show we care. Here's why:

Economic theory suggests that wages, like other prices in a competitive market, reflect the value of their product to others. If prunes suddenly were to become the nation's favorite fruit, we would see this increased value reflected in rising prune prices. If Michael Jordan's vertical leap were to drop to three inches, we would see the decline in his value as a basketball player reflected in his salary. Likewise, grocery workers, who are clearly in a competitive market in this area, can see the value of their labor to the rest of us reflected in their wages. Grocery workers were probably earning what stocking shelves, punching keys on cash registers, and labeling food is worth in a modern economy, where food production and distribution is hampered by regulations and taxes, yet is still efficient, cheap, and competitive.

If Kroger workers were in fact being underpaid in a market sense, they should not have needed a boycott by customers for their strike to be successful—Kroger should have been unable to find enough useful workers at the prevailing wage. Indeed, Kroger was able to find replacements at lower wages, but the accompanying boycott forced them to reconcile with the union. Many people sympathetic to unions, however, do not think in terms of the value of the

Anthony Woodlief is a third-year graduate student in American government at the University of Michigan.

product of a worker's labor. They seem to think in terms of the value of the worker as a person. Hence the union did not argue that Kroger should pay its employees a fair price for their labor; it demanded a "decent wage," defined only as being higher in terms of salary and benefits than current wages. Certainly, if they accept the Marx-influenced notion that wages are a reflection of a person's intrinsic value, their visceral reaction against low-wage jobs might be justified. But if that is their belief, they should be open about it and work for the destruction of what is left of our free market in the United States. In its place they could appoint a group of experts, presumably union officials and college professors, to dictate what each of us is worth as humans.

Fortunately, outside a few tenured radicals and disillusioned members of the Revolutionary Workers League, strike supporters would not favor abandoning a market economy. Instead, they would like to modify it and make it more humane, by their standards. With regard to the Kroger workers, most sympathizers don't think in Marxist terms (although their thinking is influenced by these terms more than many of them know); they simply believe that honest workers deserve a decent standard of living for themselves and their families. If this is the goal, however, then working toward it by boycotting Kroger seems misguided for two reasons.

Forcing Kroger to provide salaries and benefits higher than mandated by the market will have at least three results: fewer employees, lower profits, and eventually higher prices for consumers. To understand the first point, remember that when we cut larger pieces of the pie, fewer people get a piece. We don't have to rely on pastry theory to get these results; American economic history reveals that mandatory wage increases produce higher unemployment and inflated prices. It is no coincidence that heavily unionized states, like Michigan, also have a higher than average cost of living. A successful boycott by union sympathizers means higher wages and benefits for some at the expense of future potential employees

who will be turned away. Furthermore, if Kroger's profit margin is already very slim, a successful boycott could mean that all the employees lose their jobs if the company decides to pull out of the area.

On the other hand, if Kroger's profits are large, they will shrink because of the higher costs. These shrinking profits will signal investors to place their savings elsewhere—leading, in the long run, to fewer jobs in the grocery business.

When I argue to my liberal friends that a successful strike will mean higher prices, the response is always the same: "So? Unlike you, an uncaring fascist, I don't mind paying a few extra dollars for my groceries each week if it means that those people will be paid a living wage!" This raises my second point. The fact that wages, like other prices, send signals from buyers is only half the story. Not only do they reflect market value, they send signals to producers. In the earlier example, a sudden national craving for prunes would not only yield higher prices, it would stimulate investment in prune production as entrepreneurs tried to get in on the profits. Similarly, higher wages for a job, all other things equal, will attract more people to that job. If we force Kroger to pay wages on which a high school dropout can support a family, we in effect make it easier to be a high school dropout. Wages, in other words, are signals about what consumers value, and artificially inflating the wages and benefits of grocery workers tells other workers and potential workers that this is a profession they should choose.

The belief that everyone deserves a certain living standard does not necessitate support of demands by low-wage, unskilled workers for higher wages and benefits. Requiring government to meet those demands with income transfers would be a less dishonest way to address the costs of these dubious goals and would avoid some of the market distortions created by paying artificially high wages for a job that is not worth that much to consumers.

Of course, the American public is probably much more sympathetic toward demands for a "decent" wage, with its hidden

costs in terms of prices and efficiency, than they would be toward an outright welfare program for workers whose skills are not very valuable to the economy. That certainly explains why we have protectionist automobile policies that cost consumers more in higher prices than if we simply paid each auto worker laid off because of foreign competition a \$50,000 salary. But perhaps that is the reason why unions and their supporters speak in terms of wage "decency" rather than living standard entitlement—it allows them to obfuscate the issue and avoid difficult questions about the origin of their "entitlements" to our income.

Friedrich Hayek stressed that in a free market economy, some people necessarily fail through no fault of their own, because no one can foresee future preferences. Whether this applies to poorly educated

Kroger workers is unclear (although the case can be made that the public education system has failed at least some of them). What is clear is that if we want to help people obtain our idea of a decent living standard, we should not go about doing so by distorting market signals and telling other unskilled workers and potential workers that society values their shelf-stocking abilities enough to support them and their families with high wages. If we are truly interested in thoughtful solutions to the problems of unskilled workers, we should make the costs of being unskilled clear, and work toward revamping our education system and eliminating roadblocks in our economy so that these people have more options. But perhaps for some people, like a few of my colleagues, being politically correct is more important than thoughtful solutions. □

New from Economics America!

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RICHARD COBDEN: CREATOR OF THE FREE MARKET

by John Chodes

The first half of the nineteenth century in England was much like contemporary America: It was a country strangled by bureaucratic regulations. Many people were always hungry, not because of poverty level wages, but because the price of grain for bread was kept artificially high by laws which simultaneously prevented the importation of foreign grain and subsidized domestic producers. Food riots, domestic unrest, and a stagnating economy were not sufficiently frightening to make the government eliminate these barriers.

In the midst of all this lived a successful young Manchester textile manufacturer named Richard Cobden. He saw the social injustice, and it made him furious. He was determined to change it, and he did. As a result, the world owes the existence of the free market to him. Cobden demonstrated methods that we can use to break down our own protectionist “fair trade” laws and massive food subsidies.

Richard Cobden began his public life by leaving his calico printing company to his brother. He received a portion of the profits, which allowed Cobden to devote full time to the cause of free trade. It seemed an impos-

sible task. Yet, seven years later, England had undergone a revolutionary economic, political, and social change. Taxes on grain had been decimated. Unequaled prosperity flooded England. For the next 85 years Britain maintained world economic leadership, and the rallying cry of “free trade” became much more than an economic slogan. Free trade denoted the philosophy of limited government, social justice, and freedom.

Cobden understood the moral truths behind unregulated commerce. Breaking down barriers to trading freedom broke down class barriers and obstacles to civil rights. It reduced military expansion, since a powerful navy was a legacy from the old mercantile idea that warships protected trade between colonies and other controlled markets.

The Corn Laws

Protectionist tariffs were called “Corn Laws.” They restricted the free flow of corn, wheat, barley, and oats between Great Britain and foreign countries to shield the British farmer from competition.

Systematic government interference in grain production began in the 1660s. The amended Corn Law of 1774, which controlled legislation for the next half century,

John Chodes is the Communications Director of the Libertarian Party of New York City.

is a typical example: when the domestic price of corn, as paid to the farmer by the baker or dealer, fell below £2.4 a quarter (28 pounds), the farmer was encouraged to sell his products abroad, to prevent the market price from falling still further. He was given a bounty of five shillings for each "quarter" exported. When corn sold for £2.8, export was forbidden. At prices between these levels, there was a duty of six pence a quarter. Over time, this system became progressively more bureaucratized, with elaborate regulations specifying how and in what town the price was to be measured, with specific procedures for reporting and allowances for regional differences.¹

The Corn Laws displayed another characteristic of government controls: Regulations and subsidies in one area led to the manipulation of tangential areas. In this case, when bad harvests triggered soaring grain and bread prices, the Corn Law mechanism exacerbated the problem, causing still higher prices. This provoked civil disturbances to the point where the government feared insurrection. To defuse the threat, workers' wages were subsidized, relative to the price of bread. This subsidy came from the "Poor Rates," the British nineteenth-century welfare system. This greatly expanded state entitlement programs, leading to massive fraud, inequities, and even greater civil unrest.

The Corn Laws are not merely things of the past. Their spirit exists in most countries of the world. In the U.S. today, agricultural products are subsidized and stored, to the tune of tens of billions of dollars annually, to keep the price of food artificially high. This enhances the farmer's income but it also prevents the poor from eating as they should. This has led, as in nineteenth-century England, to protectionism, international tensions, and the threat of trade wars.

Richard Cobden: Businessman to Pamphleteer

Cobden was born in Dunford, West Sussex, in 1804. Because of a succession of family business failures, his father could not

support young Richard. He went to live with an uncle who trained him to be a clerk in his London warehouse. At twenty-one Cobden became a traveling salesman. He was so successful that in 1831 he went out on his own and took over the calico printing company in Manchester.

Manchester was the world's first great industrial city. It was viewed as the metropolis of the future. Alexis de Tocqueville best explained the paradox of Manchester: "From this foul drain the greatest stream of human industry flows out to fertilize the whole world. From this filthy sewer pure gold flows. Here humanity attains its most complete development and its most brutish; here civilization works its miracles, and civilized man is turned back almost into a savage."²

In Manchester Cobden had his first lesson as to what free trade meant. As he assumed ownership of the company, the protective tariff on calicos was repealed, making it possible to export them competitively. This opened up vast new markets that could not exist before, allowing Cobden to develop a new kind of international selling strategy. Cobden "introduced a new mode of business. The custom of the calico trade at that period was to print a few designs, and watch cautiously and carefully those which were most acceptable to the public, when larger quantities of those which seemed to be preferred would be printed off and offered to the retail dealer Cobden and his partners did not follow the cautious and slow policy of their predecessors, but fixing themselves upon the best designs, they had those printed off at once and pushed the sale energetically throughout the country. Those pieces which failed to take in the home market were at once shipped to other countries and the consequence was that the associated firms became very prosperous."³

Yet, at the height of his achievements, Cobden's interest in calico waned. He was eager to pursue other courses. By 1835 he wrote his first political pamphlets. One, called "Russia" (describing the threat of Russia against the decaying Turkish Empire), contained the core of this mature

thought: "It is labor improvements and discoveries that confer the greatest strength upon a people. By these alone and not by the sword of the conqueror, can nations in modern and all future times hope to rise to power and grandeur."⁴

Cobden wrote that England's rulers inhibited discovery and improvements by wasting millions on the military. His favorite target was Britain's obsession with the doctrine of the balance of power. He saw it as a source of conflict, not stability. "Empires have arisen unbidden by us; others have departed despite our utmost efforts to preserve them."⁵

Cobden's ideas were not idealistic dreams. The United States' industrial strength had revolutionized the world economy and political equilibrium. Cobden: "The new world is destined to become the arbiter of the commercial policy of the old."⁶ Already the need to trade with America had compelled Britain to abandon many regulations governing colonial commerce.

Since free trade and military non-intervention were the same to Cobden, he pleaded for Britain to abandon the past and repeal protectionism. This would make Britain "turn moralist, in the end, in self-defense."⁷

Manchester Incorporation: Prelude to Repeal

Cobden's pamphlets attracted the attention of the editor of the *Manchester Times*, Archibald Prentice, who asked him to speak on free trade issues. This led to Cobden's being elected to the Manchester Chamber of Commerce. Here he met two men who would influence his thinking and direction: John Benjamin "Corn Law" Smith and John Bright. Smith's nickname was due to his years of singlehandedly fighting for Corn Law repeal, long before it became a major topic. It was Smith who converted Cobden to total repeal, not just incremental reductions. John Bright became Cobden's chief lieutenant in the long war for repeal. Bright's speaking tours around the country were a great factor in victory.

Cobden used the Chamber of Commerce as a vehicle for focusing public issues. The first political problem he tackled was the incorporation of Manchester. Like many of England's new industrial cities, Manchester had no borough (an urban political administrative area) charter. Its government was manorial, with the power of a small town, instead of one of England's largest urban centers.

In 1837 Cobden led the battle for a charter. One factor in winning was that he fought for it as if it were a national issue. His pamphlet, "Incorporate Your Borough," portrayed the struggle as one of democracy versus privilege, the rights of the productive classes against the rapacious aristocracy. He showed that the nobility's gerrymandering of counties forced the middle and working classes to be their vassals.

Incorporation required a petition of taxpayers. There was powerful opposition from the upper class Tories. To counter this, Cobden focused on the "shopocracy," the smaller merchants and manufacturers, for petition signatures. Then, using electoral registers, the Incorporationists sent a circular to all parliamentary electors who supported reform causes, to aid them by filling seats at public meetings. They did, and incorporation passed despite the fact that the Tories had three times as many signatures. Cobden made a name-by-name check of the opposition petition and found that 70 percent were invalid. With incorporation, Cobden was elected to his first public offices: borough councilor and alderman.⁸

The Manchester League: Fighting for Free Trade

Cobden now set his sights on an ambitious national goal that had previously proved impossible to attain: repeal of the Corn Laws. In 1838 the Manchester Anti-Corn Law Association (later, the Manchester League) was created. Cobden saw repeal as the greatest single battle of his time. It would unite workers, farmers, and commercial interests against privilege to radically alter the political power structure of the country.

The League's initial goal was to educate the public. Lecturers went all around England, giving free trade conferences. At this stage, political pressure did not seem necessary. But the League did have an ally in Parliament: Charles Villiers. For years he had unsuccessfully tried to initiate a Corn Law repeal debate in the House of Commons, which was dominated by big landlords. However, Cobden knew that Villiers' efforts helped identify supporters at the national level. This would influence the League's strategy in the provinces.

Within the first year Cobden realized that he had underestimated the Protectionists' strength. In rural areas, League meetings were disrupted by physical violence. The farmers erroneously believed that free trade would bring unemployment and depression. The Chartist, representing the urban workers, were hostile for the same reason. Cobden hoped that the League's message would convince both groups that repeal would open up new markets which would raise all wages. It required years of educating for these truths finally to be perceived.

This generated a strategic change: the lectures were now combined with petition drives for Parliament. Thus began overt political activism. By 1840 the Manchester League transformed itself, creating in every borough an anti-Corn Law party, or at least an effort to "prevent the return of any candidate at the next election, whatever his political party may be, who supports . . . the landowner's bread tax."⁹ This meant a more aggressive League, less compromising, less fearful of making enemies.

In 1841, a major economic depression occurred. Suddenly Prime Minister Robert Peel resorted to the free trade idea of lower tariffs to stimulate the economy. This made the Corn Laws nationally significant and gave greater credibility to the League.

By now the League had several members in Parliament, including Cobden. But he was a reluctant member. He did not want to be a "party man," loyal and compromising. He needed to be free to harass the government.

Cobden's speeches in Parliament were not influential and this dampened League

members' enthusiasm. Support dropped sharply. In all mass movements, zeal is critical. There is a constant need to exceed earlier achievements or risk dissolution. So Cobden created "make-work" projects like conferences and fund-raisers to keep the fervor at high pitch.

By 1843, paradoxically, economic recovery made the League acceptable to the one group most antagonistic to repeal: the aristocratic landowners. When times had been bad, high prices and high subsidies compensated for the poor yields. But now, prices kept falling with increased abundance and the Tories saw that the Corn Laws did not shore up their incomes.

Cobden's speeches became more moderate. Instead of attacking the Corn Laws, he attacked the greater evils behind them: the economic woes to workingmen and farmers. The new accent was on distress, not repeal. Now he no longer seemed menacing to the Tories. Gone were the threats of the collapse of society because of high food prices. No longer did he say that the Corn Laws benefited only the rich. He appealed to the landlords themselves, showing them that protective tariffs deterred them from investing to improve their crops, thus hindering their prosperity.

This wider view drew many leading Tories to the repeal side and was responsible for Robert Peel receiving a League delegation after repeatedly turning them down.

This was followed by a new League political plan. All the boroughs were classified as either "safe," "doubtful," or "hopeless." Voter registration focused on the hopeless districts. Teams of lecturers and voter canvassers fanned out and recruited thousands of new members. Cobden's overall objective was staggering: to reach every voter with League material through the canvassers. The sheer scale of it produced more enthusiasm, more fund-raisers, more activities, but it failed and did not destroy the Protectionists. Cobden had the courage to admit he was wrong and turned around completely in mid-campaign, refocusing on the winnable boroughs.

Cobden targeted 160 boroughs as winna-

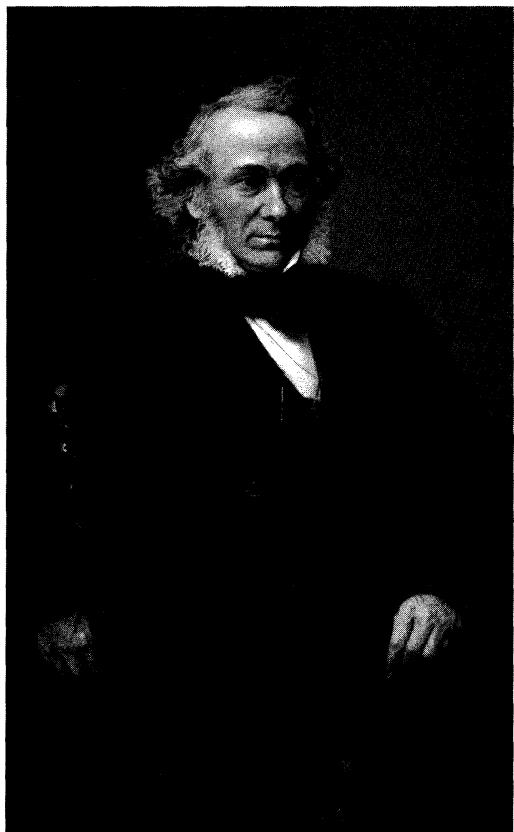
ble. The 1845 national election showed substantial gains in 112. This still wasn't sufficient to win a Parliamentary vote. League members were now thoroughly demoralized. Their tremendous work seemed futile. Then Cobden discovered a loophole in the election law, enabling the League to attack from an entirely different direction. This proved to be the key to victory.

Previously Cobden had conceded the counties (the rural political districts). To win them he would have to create a vast new electorate. This seemed impossible because of the large property qualification required. Or so he thought. But a little-known law made it possible to vote in a county election if one owned a "forty-shilling freehold," a small piece of property that almost anyone could afford. By promoting forty-shilling freeholds as a great real estate investment, the number of free-trade voters was greatly expanded. Immediately the Tories retreated. They acknowledged that protectionism hindered agricultural modernization and conceded that subsidies did not stabilize corn prices.

Seeing that his opponents were caving in, Cobden once again switched the mode of attack: de-emphasizing public education to put more pressure on Parliament. This forced Prime Minister Peel over to the League side, provoking a governmental crisis. He was forced to resign and his government collapsed. Repeal now seemed within reach. But the chaos compelled a Parliamentary re-organization, reflecting the revolutionary change in the balance of power that repeal represented, shifting away from the aristocrats toward the urban middle class. It appeared that the Protectionists had formed a last-ditch coalition to block repeal just when it seemed assured. League members held their breath. Repeal passed Parliament and became law.¹⁰

The Consequences of Repeal

Following repeal, Richard Cobden was physically, mentally, and financially drained. He considered retiring permanently from politics. For the five years prior



*Richard Cobden
1804–1865*

to repeal he saw very little of his wife and children. "My only boy is five years old . . . he did not positively know me as his father, so incessantly was I upon the tramp."¹¹ Yet Cobden felt the necessity to go on. He saw repeal as a beginning, not an end. More than prosperity, it would bring world peace. He spent the next fourteen months on a missionary tour of Europe, promoting the social benefits of trade without barriers.

He wrote: "Warriors and despots are generally bad economists and they instinctively carry their ideas of force and violence into the civil politics of their governments. Free trade is a principle which recognizes the paramount importance of individual action."¹²

Several years later his evangelism led to the second great triumph of his political career, the Anglo-French Commercial Treaty of 1860. France was still a protectionist country, but Cobden's tour had con-

verted important Frenchmen into free-traders. They had influenced Napoleon III. One such person was Michel Chevalier, a political economist.

For centuries England and France had been military antagonists, but in the Crimean War of 1854–55 they were allies. Through free trade there was a unique opportunity to strengthen the bonds for permanent peace.

Initially there were several secret meetings in London among Chevalier, Cobden, and Gladstone, the Chancellor of the Exchequer. Then Cobden, with no official status, quietly left for Paris. He believed then, as always, that free trade would undo the national animosities kept alive by the professional diplomats and the military. “I would not step across the street just now to increase our trade, for the mere sake of commercial gain . . . But to improve moral and political relations of France and England, by bringing them into greater intercourse and increased dependence, I would walk barefoot from Calais to Paris.”¹³

Napoleon realized that he had to convince his own government about the benefits of free trade. He asked Cobden how to go about it. Cobden replied, “I told him, I would act precisely as I did in England, by dealing first with one article which was the keystone of the whole system. In England, that article was corn, in France, it was iron; that I should totally abolish and at once the duty on pig iron, and leave only a small revenue duty, if any, on bars . . . this would render it much easier to deal with all the other industries, whose general complaint is that they can’t compete with England owing to the high price of iron and coal.”¹⁴

When the negotiations reached their critical phase, Cobden thought he would be replaced by professional diplomats. Instead he was given plenipotentiary powers and continued on his own. The agreement was signed in January 1860.

Cobden's Legacy

Cobden died in April 1865. He was sixty years old. His legacy is enormous and remains so to this day. For eighty-five years free trade reigned as England’s national policy, influencing the commercial principles of every major country in the world. Richard Cobden’s idealism and passionate dream can be summed up by his statement: “I see in the free trade principle that which will act on the moral world as the principle of gravitation in the universe—drawing men together, thrusting aside the antagonisms of race, and creeds and language, and uniting us in the bonds of eternal peace. . . . I believe the effect will be to change the face of the world, so as to introduce a system of government entirely distinct from that which now prevails. I believe the desire and the motive for large and mighty empires and gigantic armies and great navies . . . will die away . . . when man becomes one family, and freely exchanges the fruits of his labor with his brother man.”¹⁵ □

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2. Alexis de Tocqueville, *Journeys to England and Ireland*, edited by J. P. Mayer (New Haven: Yale University Press, 1958), pp. 107–108.

3. John McGilchrist, *Richard Cobden, the Apostle of Free Trade* (New York: Harper & Brothers, 1865), p. 20.

4. Richard Cobden, “Russia,” from *The Political Writings of Richard Cobden*, 4th edition (London: W. Ridgway, 1903), p. 26.

5. Cobden, “America,” from *Political Writings*, p. 5.

6. Cobden, p. 21.

7. Cobden, p. 256.

8. Nicholas Edsall, *Richard Cobden, Independent Radical* (Cambridge: Harvard University Press, 1986), pp. 51–59.

9. Edsall, p. 85.

10. Edsall, pp. 53–153.

11. Edsall, p. 174.

12. Edsall, p. 186.

13. Edsall, p. 333.

14. Edsall, p. 334.

15. Richard Cobden, *Speeches on Public Policy, By Richard Cobden, M.P.*, edited by John Bright and J. E. Thorold Rogers (London: Macmillan & Co., 1870), pp. 225–226.

OUT OF WORK

by John Chamberlain

After last fall's election George Bush said he beat himself. But history asks of Bush no such abasement. History tells us that when unemployment is high, presidential incumbents always lose.

In a fantastically detailed book called *Out of Work: Unemployment and Government in Twentieth-Century America* (New York: Independent Institute, Holmes and Meier, Foreword by Martin Bronfenbrenner, 326 pages, \$27.95, \$16.95), Richard Vedder and Lowell Gallaway controvert Bush's assessment. I'll take Vedder's and Gallaway's word for it. They seem to know every bit of evidence about unemployment going well back into the nineteenth century. Their conclusion is that government action aimed at eliminating unemployment of more than seven percent defeats itself. The best way, they say, to reduce unemployment is to do nothing.

In 1929, when Herbert Hoover was running things, we had an activist who had fed the Belgians and Russians. He thought he knew everything about stabilizing markets by government interference. The word that went out from the White House was that money wages should not be cut. High wages would maintain purchasing power. The purchasing power fetish, with Hoover's sanction, became the orthodoxy of the time. When Franklin Roosevelt took over, he saw no reason to change things. After all, he had been an activist too.

Simply put, this meant that there was a bottom rigidity to a key factor of production. The free market was not allowed to work.

To force things, deficit financing was resorted to in various combinations. The

National Industrial Recovery Act set prices under the so-called Blue Eagle until the Supreme Court invalidated it, but this was by no means the end of the high-wage story. The Wagner Act, the Social Security Act, the Fair Labor Standards Act, all contributed to maintaining high labor costs. The Smoot-Hawley tariff added a protectionist bias that provoked foreign retaliation. American employers went along with Franklin Roosevelt (Ford and Thomas Edison were with them), but only up to a point. When a person could not earn the minimum wage he was understandably jettisoned.

Quoting from a *National Review* summary of their book, Vedder and Gallaway say that "market forces tend to end recessions naturally by forcing a fall in the adjusted real wage . . ." The 1920-21 recession, infinitely worse at the outset than the Great Depression, dissipated itself within a year under "do nothing Presidents" (Woodrow Wilson was too seriously ill to pursue his natural inclinations, and Warren Harding wasn't interested).

The Great Depression, by contrast to that of 1920-21, got worse after continual market meddling. More recently, the 1982 recession lasted only about a year, with no special attempt on the part of the Reagan Administration to end it. As labor markets softened, real wages fell.

Vedder and Gallaway take four vivid impressions from reading American macroeconomic history. One is that the worker needs prosperous capitalists to provide for job opportunities. The second is that government efforts to reduce unemployment must worsen the problem. The third is that

long-term improvement in living standards requires improvements in productivity, better understood by reading Adam Smith than John Maynard Keynes. The fourth impression is that "experts" are dangerous and should be listened to skeptically. Being "kinder and gentler" by approving a morass of new environmental, civil rights, minimum wage, and other legislations has hurt American workers. The "experts" are to blame.

As they keep reiterating, Vedder and Gallaway are bent on keeping government out of it. They pound this in: the best thing to do in dealing with unemployment is to leave it alone. □

riod covered by this book (to 1938) reform seemed to take precedence over recovery as the key concern of persons close to FDR.

This scholarly, well-documented study—there are 1055 endnotes—makes a convincing case that FDR's prejudices, antipathies based on emotion, worked against recovery. Despite evidence of the willingness of business leaders to cooperate in the early months, the President's suspicions continued. "Businessmen who headed giant corporations were belittled . . . by Roosevelt for lack of intelligence."

Recovery of the economy would be recovery of business. And business recovery would depend, in part at least, upon the beliefs and expectations, the "animal spirits," of heads of businesses. Although one can never know how different the record would have been if FDR had not been so antagonistic, the author believes, I think correctly, that Americans suffered needlessly from FDR's antipathies.

The policies of the first four New Deal years failed to produce sustained recovery. The economy suffered a serious and quite unexpected decline late in 1937. Treasury Secretary Henry Morgenthau informed the President in a telephone conversation on November 3, 1937, that another serious depression was under way and that the Federal Reserve should do something. Morgenthau recorded at the time: "From then on the President got very excited, very dictatorial and very disagreeable."

He quoted at great length a man whom he described as a "wise old bird" who had told him that there were 2,000 men in this country who had made up their minds that they would hold a pistol to the President's head and make certain demands of him, otherwise they would continue to depress business. He quoted a lot of other generalities.

I [Morgenthau] said, "A great deal depends on who this person is" and like a crack from a whip he said, "It is not necessary for you to know who that person is," which led me to believe that the "wise old bird" was himself

**Pride, Prejudice, and Politics:
Roosevelt Versus Recovery, 1933–1938**
by Gary Dean Best
New York: Praeger, 1991 • 267 pages • \$45

Reviewed by C. Lowell Harriss

This study documents President Franklin D. Roosevelt's hostility to business. In his 1933 inaugural address he spoke of the "plenty . . . at our doorstep" whose "generous use . . . languishes because rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence, have admitted their failure, and have abdicated." As the months and years passed, business leaders could see that such antagonism was not merely political hyperbole. FDR gave every indication of believing what he had said. So did persons close to him.

To help in the campaign of 1932 FDR's advisers had recruited a "brain trust" from academia (chiefly Columbia University). "Only men . . . who could come to the many conferences . . . on a five cent fare" wrote Judge Rosenman, the recruiter. The economist, Professor Rexford Guy Tugwell, had just published an article decrying the profit motive.

The inauguration brought no substantial program for recovery. Throughout the pe-

Did the President really believe in such a conspiracy? Could such a thing possibly have been kept secret then or since?

FDR's repeated refusals to accept and take seriously business leaders' efforts to cooperate must have aggravated their alienation resulting from opposition to what the New Deal called reforms. Some advisers were unsuccessful in convincing the President that many of his policies on taxation, securities regulation, labor union organization, and so forth discouraged investment and business recovery.

The evidence in this study of FDR's continuing anti-business allegations—one quotation after another, year after year—must convince the reader that something quite irrational influenced him profoundly.

The author, Professor of History at the University of Hawaii at Hilo, does not presume to present a complete history of the first five years of the New Deal. But no history of the period can be complete without taking account of the evidence in this study. The closing chapter presents a picture that supports the assessments of contemporary observers, some certainly of unquestioned stature, who found "pettiness and spitefulness" in FDR, a person "who was intolerant of criticism and critics, and who grasped for dictatorial power" The Roosevelt of the pre-World War II years does not, the author believes, rank among the great presidents. □

C. Lowell Harris is Professor Emeritus of Economics, Columbia University.

Capital Ideas: The Improbable Origins of Modern Wall Street

by Peter L. Bernstein

The Free Press, 340 pages, \$24.95

Reviewed by Raymond J. Keating

Peter Bernstein documents in workman-like fashion not only the unusual intellectual origins of many modern financial instruments and strategies, but also how

financial economists have struggled to gain the full acceptance of their economic brethren. Finance was long neglected by economists. The author gently, yet at times unevenly, mixes personal anecdotes about individuals—including not only economists but engineers and physicists as well—with an interesting overview of their contributions to the theory of finance.

The genesis of modern financial innovations largely came from cloistered academics with little securities market experience, rather than from street-smart analysts and investors, for example. In fact, modern developments in finance spring from a central tenet not often accepted by such securities professionals. The overarching theme of *Capital Ideas* is that securities markets are efficient. Efficient financial markets seemingly present a conundrum for securities analysts and investors. On the one hand, market efficiency largely condemns the analysis profession to futility. That is, if markets are efficient, with prices immediately reflecting all information, one cannot regularly "beat the market." However, without hard-working and talented securities analysts and investors seeking out new information, the markets would not be so efficient. Bernstein points out that efficient securities markets and the concomitant fact that most investors will do no better than average is actually "a compliment to the avidity and intelligence and self-interest that motivate informed investors. If more investors were to become less zealous in pursuit of their fortunes, the keen and the swift would find the market a lot easier to beat."

Bernstein examines several innovations in finance theory, from Harry Markowitz's development of the "Efficient Frontier" of securities portfolios to Hayne Leland's idea for insuring such portfolios. James Tobin's "Separation Theorem," William Sharpe's development of the "Capital Asset Pricing Model," Eugene Fama's "Random Walk Theory," Modigliani and Miller's assertions that the market value of the firm is independent of its capital structure, and Black and Scholes' analysis of option pricing are all surveyed to varying degrees.

Two aspects of Bernstein's book are particularly intriguing however. Ironically, the first is his closing chapter. All authors seek to neatly tie together the themes and ideas strewn throughout their books in the final chapter. Bernstein does so splendidly. He takes the many financial innovations explained in the preceding fourteen chapters, and expresses their importance to everyday economic life.

Bernstein illuminates the critical role financial markets play in economic development and growth, a point of particular importance today as socialism continues its descent. In fact, the author unequivocally declares: "In socialist economies it is the absence of free and active markets for corporate ownership that deprives citizens of the goods they want, with the quality they demand, and at the prices they can afford." Without functioning financial markets, resources are misallocated with "catastrophic effects on living standards, employment and economic growth."

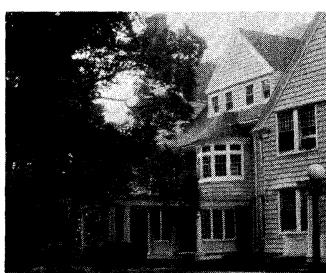
The importance of risk-taking does not elude the author's purview. Bernstein observes: "Because the stock market makes diversification easy and inexpensive, the average level of risk-taking in society is enhanced." And very simply, "Institutions that encourage risk-taking are essential if a society is to grow and raise its living standards."

Bernstein also describes how theoretical

innovations met specific, "real world" needs. For example, the "markets for futures and options allow dealers to hedge the risks they incur," and the junk bond market "satisfied the needs of both the investors who bought junk bonds and the relatively small companies" seeking much needed capital for growth and job creation "that their banks either could not or would not supply."

The second intriguing aspect of *Capital Ideas* is buried between the lines. Several of the economists Bernstein discusses, such as James Tobin, Paul Samuelson, and Franco Modigliani, are Keynesian macroeconomists. Yet, the truly interesting aspects of their life's work have been accomplished on the micro-level, for example, verifying the efficiency of securities markets and exploring its implications. One can only imagine what these individuals might contribute if they would finally let go of their fallacious macroeconomic analysis and prescriptions, such as fine tuning aggregate demand, and apply their intellects and microeconomic analytical tools to issues like economic growth, taxation, employment, and living standards. The dichotomy between the microeconomic and macroeconomic endeavors of such individuals is apparent to many, except themselves and others schooled in the failed Keynesian system. □

Raymond J. Keating is New York State Director of Citizens for a Sound Economy.



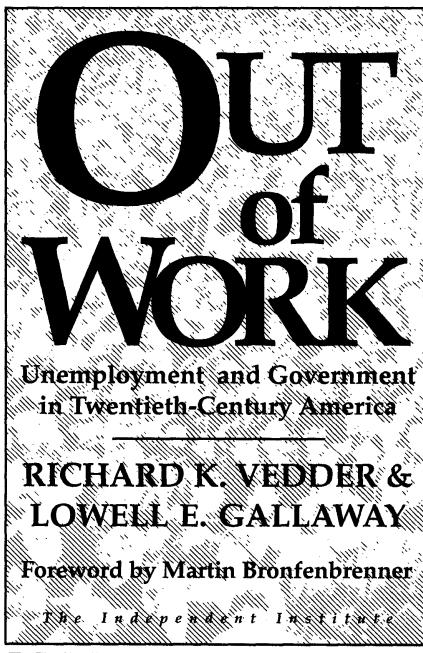
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THE FREEMAN

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APRIL
1993
VOL. 43
NO. 4

Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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PERSPECTIVE

The Revolution That Was America

America is not a place but a revolution. No other country's emergence in human history has ushered in a revolution as did that of the United States of America. The Russian "October" Revolution was nothing much in comparison, a mere changing of one bad regime to another, with different slogans from the old but without much change in substance. That is not how it happened with the American revolution.

Where America has made the biggest difference is in its political and legal constitution—how it was conceived, with what priorities. The central novelty of the American polity was its transfer of sovereignty from the society, community, state, nation, royal family, church, and all kinds of collectivities to the individual human being.

It isn't free enterprise, or even private property, that counts for most in this political vision. It is the individual person's life as a project to embark upon with complete authority—that's what made the difference about America. Indeed, that is what nearly everyone who came to its shores perceived, if only simply or implicitly. Elsewhere the important things were the culture, people, race, religious sect, class, or whatnot. And the individual as an individual didn't much matter.

Not according to the American dream. Sure, that dream has never been fully realized and was sometimes drastically subverted, as with slavery and military conscription, as well as compulsory education and all forms of extortion passing for taxation. But at least there were the words of the Declaration of Independence, the Bill of Rights, the breakthroughs in civil liberties, and a certain measure of freedom of trade. These fixed for millions here and abroad a vision of how a country might be, how its people might interact and embark on various missions either on their own or in voluntary cooperation with any number of their fellows.

An anecdote may help to underscore this point. Once, many years after I became a

citizen of the United States of America, I went back to visit relatives in Europe. Sitting in a rather elegant Viennese restaurant with my mother, I engaged a Yugoslavian waiter—who recently left his homeland so as to seek prosperity abroad—in conversation about America. The chat went well and it was thus something of a shock when upon its conclusion my mother showed clear signs of irritation. She put it this way: "You shouldn't have chatted away with a mere waiter. It's embarrassing."

This was very odd to hear for someone who came to America and lived here knowing that it is never embarrassing to speak to someone simply because of his origin, occupation, race, or sex. Of course, there are exceptions, but in the main the American mind is characterized by a basic kind of individualism, whereby what counts is the person one is, not one's origins or status. Despite what some left-wing hecklers of America keep shrieking, there is no class structure in this country. For a long time the politically correct thing to do was to think of people as individuals, not as members of some superior or inferior group.

Although the ideal of individual liberty and the ensuing development of an accommodating political order are relatively new in human history, there has not been much progress in the development of either. Reactionary ideas have set in for some time now and have governed most people's thinking, especially those who air their views in prominent forums—the electronic news media, widely reviewed books, major magazines, and newspapers.

Yet, it is also crucial that just returning to home base and carrying on as before cannot be the answer. The meaning of the right to individual liberty, while fundamentally stable throughout human affairs, needs to be interpreted for innumerable novel human situations. What freedom of speech meant for colonial America is not identical to what it means for the computer era. Private property rights are, essentially, having the final

authority to determine what is to be done with what is one's own, but owning a saw, a bazooka, an airplane, and an internal combustion engine do not all come to the same thing.

So as we consider the details of how the country may be turned around along lines that once made it the best of all countries in the world—with its flaws clearly being its departure from its own ideals—we cannot expect merely to repeat policies of the past. The polity of liberty needs to be worked out to meet new and different challenges. It needs to have a legal framework that does not stifle progress but adjusts to it.

The polity of liberty is every bit prepared to do so. This depends on no more than that we understand what human nature can achieve as far as political objectives are concerned, and that we are committed to help it along by taking responsibility for our own actions, accepting blame as well as praise for what we do, and not expecting government to live our lives for us.

—TIBOR R. MACHAN

How the Government Plans to "Improve" Your Lab Tests

If the cost of tests done by your medical laboratory has only gone up by 300 percent or more, you're one of the lucky ones.

Some patients will no longer be able to have lab tests at all, at least not without driving 100 miles.

The reason is the Clinical Laboratory Improvement Act (CLIA) of 1988. As of September 1992, all physicians' office laboratories are required to be registered with the federal government. And if the laboratory does anything other than the simplest tests, payment of a registration fee is just the beginning. There are paperwork requirements, personnel standards, proficiency testing, more fees, and huge fines for violating any of the Byzantine requirements.

—JANE M. ORIENT, M.D.

THE GROWTH OF GOVERNMENT IN AMERICA

by Stephen Moore

Let us begin with a simple but vitally important proposition: Government in America was never supposed to engage in the multitude of activities that it does today.

When the United States gained its independence more than 200 years ago, the founding fathers envisioned a national government with explicit and restricted responsibilities. These responsibilities pertained mainly to protecting the security of the nation and ensuring "domestic tranquility," which meant preserving public safety. Especially in the realm of domestic affairs the founders foresaw very limited government interference in the daily lives of its citizens. The founders did not create a Department of Commerce, a Department of Education, or a Department of Housing and Urban Development. This was not an oversight: They simply never imagined that the national government would take an active role in such activities.

The minimal government involvement in the domestic economy would be funded and delivered at the state and local levels. Even that involvement was to be restricted by Congress' authority over interstate com-

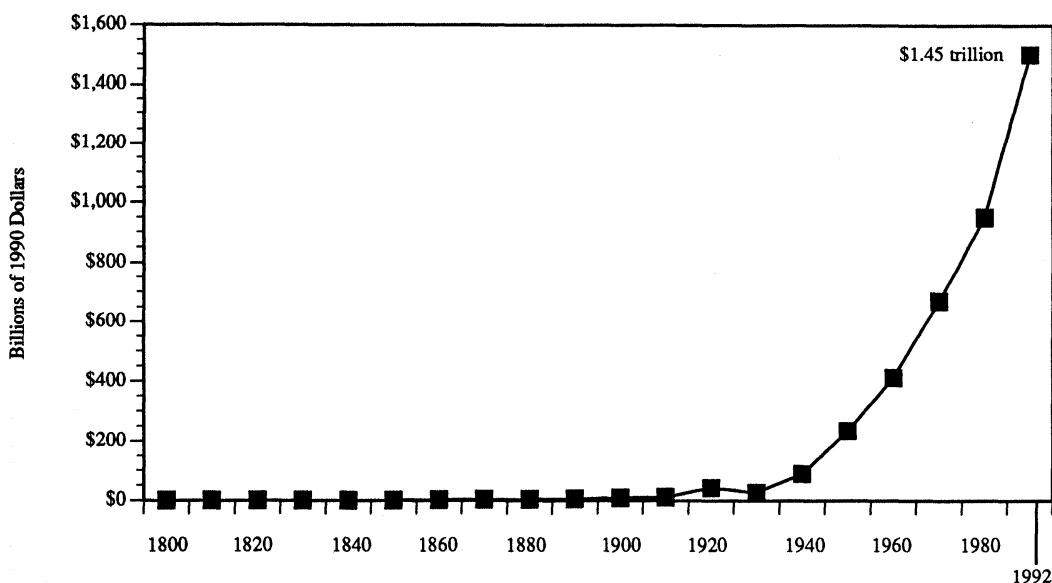
merce, an authority granted to Congress by the founders for the purpose of preventing the state governments from interfering with commerce.

Recognizing the propensity of governments to grow, the people added the Bill of Rights to the Constitution as an additional layer of protection for the rights of individuals against the state. The Bill of Rights was to ensure that government would never grow so large that it could trample on the individual and economic liberties of American citizens. These liberties are eroding. The United States has been gradually transformed from a nation with almost no government presence in the marketplace to one in which the government is now the predominant actor in the domestic economy.

Consider the following:

- There are now more Americans employed by government than by the entire manufacturing sector in America.
- In the past 25 years the federal government has spent \$2.5 trillion on welfare and aid to cities. This is enough money to purchase all of the assets of the Fortune 500 companies plus all of the farmland in the United States.
- In 1987 U.S. farmers received more money in government subsidies than they did in selling their crops in the marketplace.

Stephen Moore is Director of Fiscal Policy Studies at the Cato Institute. This article is adapted from a study prepared by the Institute for Policy Innovation.

Figure 1**Real Federal Outlays, 1800-1992**

In short, farmers now produce for the government, not U.S. consumers.

- In three states today—California, Maine, and New York—almost half of all middle-income family wages are captured by government through income, payroll, property, and sales taxes, and other levies.

Why is the American public not rising up in protest? The answer seems to be that the growth of government has been sufficiently gradual over the past 50 to 100 years that most Americans today probably believe that this is the way government in America ought to act and has always acted.

Both of these contentions are wrong. Government has not always, and ought not, act as it does now. The following sections demonstrate with the aid of graphs and figures how government has grown over our nation's history. We examine federal, state, and local government growth in five areas: expenditures, taxes, debt, welfare and transfer payments, and employment.

We standardize the measurement of each of these government growth indices in three ways: in real 1990 dollars, in real per capita 1990 dollars, and as a share of total output

or income. Unless otherwise indicated, all figures are presented in 1990 dollars. Except in a few specified instances, all of the data are from standard government sources.

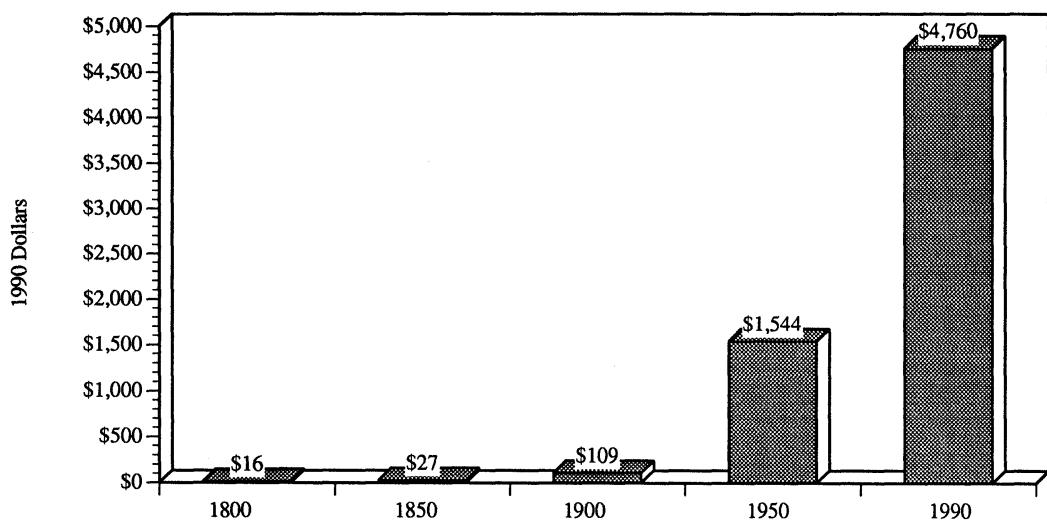
Federal Outlays

Perhaps the best measure of the impact of government activity is how much it spends each year. Figure 1 shows the expansion of the federal budget from 1800 to 1992. As the steep ascent shows, federal spending has exploded more than ten thousandfold since 1800 with almost all of the increase in the past 40 years. Real federal outlays have climbed from \$0.1 billion in 1800 to \$0.6 billion in 1850, to \$8.3 billion in 1900, to \$235.1 billion in 1950, to \$1,450.0 billion in 1992.

Of course, the nation is much larger today than in earlier periods, so one would expect government also to be bigger. Figure 2 shows the per capita level of federal spending over time. Even when adjusting for the growth in population size (and inflation), federal expenditures have mushroomed:

- The federal government spent \$16 per

Figure 2

Real Per Capita Federal Outlays, 1800-1990

person in 1800, \$27 per person in 1850, \$109 per person in 1900, \$1,544 per person in 1950, and \$4,760 per person in 1990.

Bear in mind, this does not include the cost of back door spending, such as mandates and regulations. If they were included here, the cost of the federal government per person today would easily exceed \$10,000.

One of the most meaningful ways of measuring the burden of government is how much it spends relative to total economic output. One might argue that government spends more money today because the American economy has grown so much larger than in earlier periods. If government is consuming the same proportion of total output in two periods, then the economic burden of paying for its activities is roughly the same, even if expenditures are much larger in the later period. Unfortunately, federal spending is not keeping pace with economic growth—it is far outpacing economic growth:

- In 1900 the federal government consumed less than 5 percent of total output.
- In 1950 the federal government consumed roughly 15 percent of total output.
- In 1992 the federal government consumed almost 25 percent of total output.

The Composition of Federal Outlays

The single most important activity of the federal government is to provide for the national defense. A free nation spends as much as necessary to protect its borders and its citizens. Is the modern-day growth of government on the federal level a result of the national defense build-up in the Cold War era? The answer is clearly no. National defense spending as a share of the total federal budget has been continually shrinking, with the exception of brief periods of war:

- Defense spending constituted more than half of total federal outlays in 1800.
- Defense spending constituted more than one-third of federal outlays in 1900.
- Defense spending now constitutes little more than one-fifth of federal outlays.

The flip-side of this steady reduction of defense expenditures as a share of the budget is an expansion in spending on civilian programs, such as agriculture, health care, housing, and aid to state governments. Until the 1930s, the federal government spent almost nothing in each of these areas. This rise has been most prominent since 1950.

Figure 3

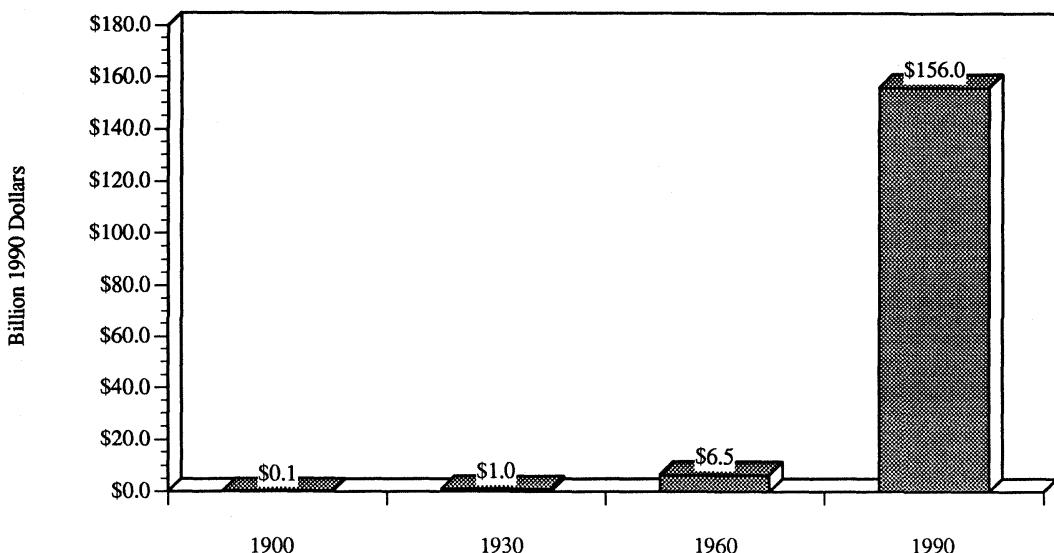
Real Federal Health Care Expenditures, 1900-1990

Figure 3 shows the tremendous growth in federal health care spending, from \$100 million in 1900 to \$156 billion in 1990.

These data on federal domestic spending powerfully refute the common complaint by special interest groups that favored domestic programs have been substantially cut back in recent years. Although there were modest spending reductions on selected domestic programs in the Reagan years, in 1992 the outlays for every major domestic area of the budget were at an all-time high—with the exception of agriculture.

State and Local Spending

Some budget analysts claim that federal spending has increased to compensate for budget reductions on the state and local levels. The data show otherwise:

- In 1900 states spent \$32 per person.
- In 1950 states spent \$470 per person.
- In 1990 states spent \$1,934 per person.

On the local level, per capita expenditures have been rising rapidly as well, though not as rapidly as federal and state expenditures. For every dollar that local governments spent per person in 1900, they spent \$2.50 in 1950 and \$8.50 in 1990.

Although the 1980s are commonly reported to have been a decade of government neglect, this assertion is contrary to fact. State expenditures, for example, rose at twice the inflation rate in the 1980s. Local expenditures grew nearly as fast as state expenditures. Moreover, celebrated cutbacks in federal aid to localities were almost entirely replaced by increases in state aid to local governments. In sum, the past decade was one of the most expansive for state and city budgets in U.S. history.

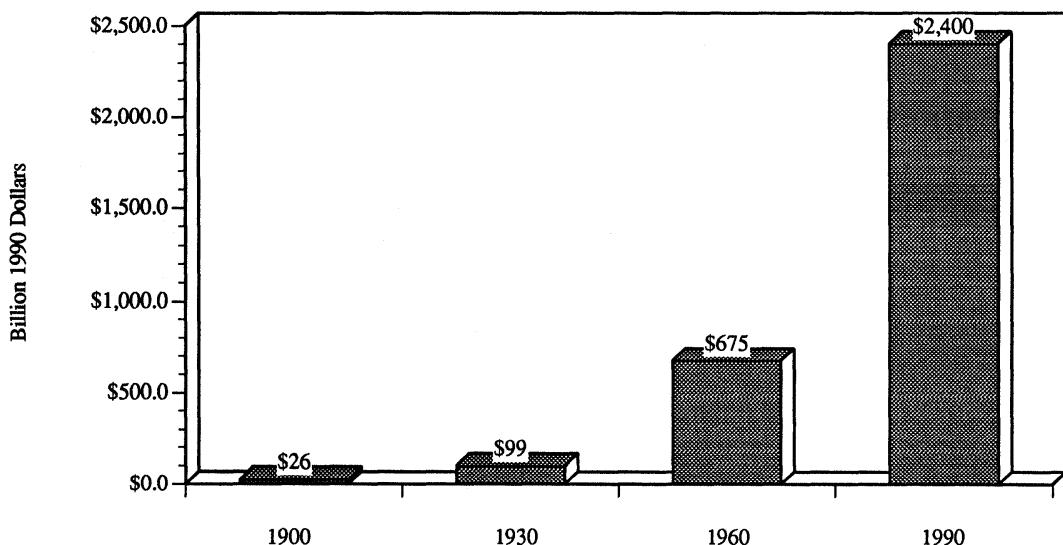
Total Federal, State, and Local Expenditures

In 1900 government in America was still, by today's standards, comparatively lean and efficient. At that time, total federal, state, and local expenditures were \$26 billion. Americans now support a nearly \$2.5 trillion government, almost a 100-fold increase in real outlays. (See **Figure 4**.)

Both as a share of total output and on a per-person basis, this is a substantial amount of government to have to pay for.

- Government consumed almost 10 percent of GNP in 1900 and now consumes more than 35 percent.

Figure 4

Real Federal, State, and Local Government Expenditures, 1900-1990

- Government spent \$1,650 for every household in 1900 and today spends \$23,140. (See Figure 5.)

In sum, whatever social and economic problems confront America today, they are clearly not a result of a neglectful or underfunded public sector.

Total Taxes

The American Revolution has been called the greatest tax revolt in world history. Yet as a result of the growth of government expenditures described above, taxes are now at levels that would have been incon-

Figure 5

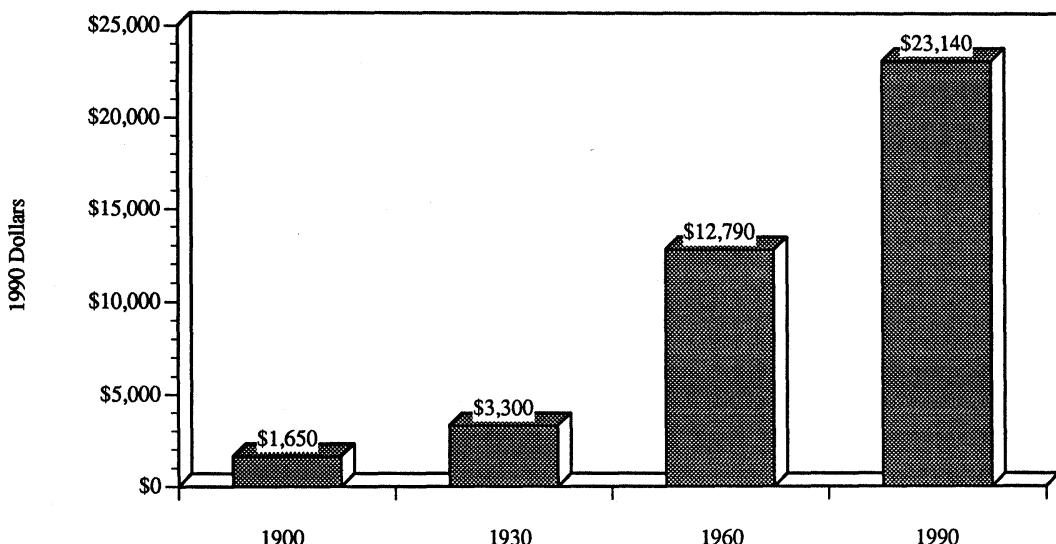
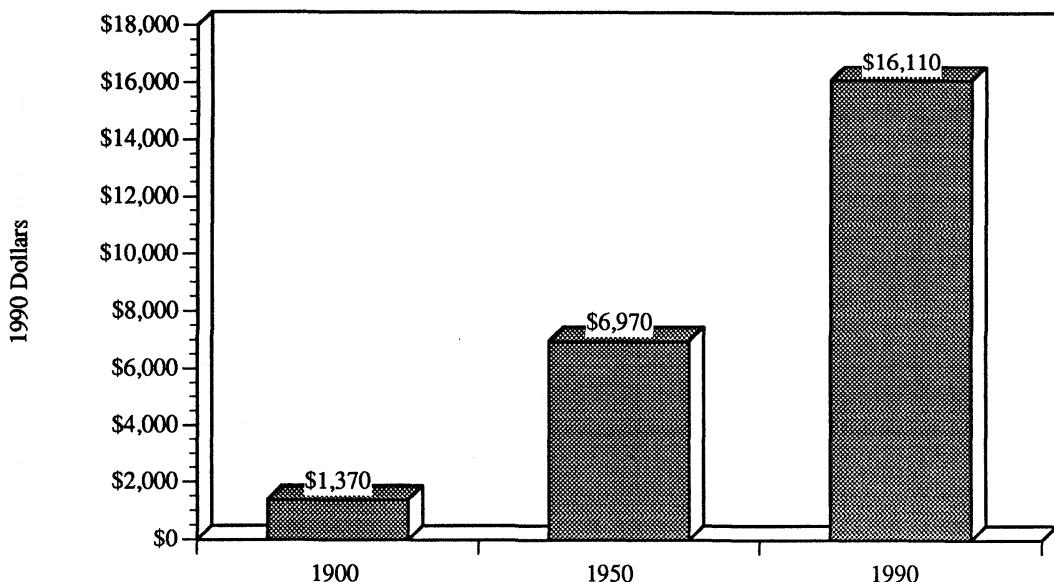
Real Total Government Expenditures per Household, 1900-1990

Figure 6**Real Total Government Taxes per Household, 1900-1990**

ceivable 200, 100, or even 50 years ago. Today, when combining federal, state, and local taxes, many middle-income Americans work a larger share of the day to pay the government's bills than their own. Even the tax revolt of the late 1970s and early 1980s proved to be merely a temporary restraint on the demands of the government tax collector. Consider the percentage of income that is seized by government in taxes:

- In 1930 workers paid one of every eight dollars of their income in taxes.
- In 1950 workers paid one of every four dollars of their income in taxes.
- In 1992 workers paid one of every three dollars of their income in taxes.

The tax burden is even more clearly expressed by examining taxes paid per household as shown in Figure 6.

- In 1900 the average family paid nearly \$1,400 in taxes.
- In 1950 the average family paid nearly \$7,000 in taxes.
- In 1992 the average family paid over \$16,000 in taxes.

This rising tax burden has meant that workers have less take-home pay for consumption and savings. It also means that

workers' incentive to work and employers' incentive to hire are impeded by excessive taxes. These figures do not even include the cost to American individuals and firms of complying with complicated and time-consuming tax laws. By one estimate, Americans spend 5.4 billion hours at an annual cost of \$600 billion to the economy just completing the paperwork requirements of federal taxes.

The Federal Tax Burden

Reliable federal tax data are available back to 1800. For the first 100 years of the nation, taxes were very low. In colonial times opposition to high taxes was deeply ingrained in the American spirit, and this hostility lasted throughout the nineteenth century. Government revenues predominantly came from two sources: revenue tariffs and land sales. The limited sources of revenues for the federal government were a natural restraint on its expenditures. Three events changed that. The first was the imposition of the income tax in 1913. The second was the two World Wars, which made the American people accustomed to very high tax rates. And the third was the

creation of the Social Security program with gradually rising payroll taxes.

Taxes were relatively stable until 1900. It was not until World War II that the federal tax burden rose about threefold.

- In 1800 per capita federal taxes were \$20.
- In 1900 per capita federal taxes were \$110.
- In 1950 per capita federal taxes were \$1,460.
- In 1990 per capita federal taxes were \$4,000.

Income Taxes

The most dreaded tax for the vast majority of Americans is the income tax. Until the ratification of the Sixteenth Amendment, there was no federal income tax—the Supreme Court had consistently ruled the income tax unconstitutional. No law has contributed to the growth of government and the surrender of personal liberties and privacy rights more fully than the creation of the federal income tax. Today, more so than any other federal agency, the Internal Revenue Service has broad and sweeping powers to investigate the personal activities and finances of Americans. Without a search warrant, the IRS has rights to search the property and financial documents of American citizens. Without a trial, the IRS has the right to seize property from Americans.

The income tax burden on the federal level has been continually climbing. During periods of war, income taxes have been substantially raised, and they never are reduced to their pre-war levels. Today, the average American household pays almost \$6,000 in federal income taxes, double the 1950 burden.

States have also become much more reliant upon income taxes as a source of revenues in the past 50 years. Prior to World War II only a handful of states even imposed any income tax. Today, only nine states do not have an income tax, and four of those are considering introducing one. Today state and city governments raise about \$110 billion per year through income taxes. Statistics show the rising share of income taxes as a share of total state and local taxes:

- In 1900 state and local governments raised none of their revenues through income taxes.
- In 1960 state and local governments raised 10 percent of their revenues through income taxes.
- In 1992 state and local governments raised 26 percent of their revenues through income taxes.

The increased reliance of government at all levels on the income tax is a disturbing trend. Almost all studies show that income taxes have the most damaging effect on economic growth, entrepreneurship, and employment, because they are a direct tax on work and business success. They have a punitive effect on the most vital activities in a growing economy.

Tax Rates and Payroll Taxes

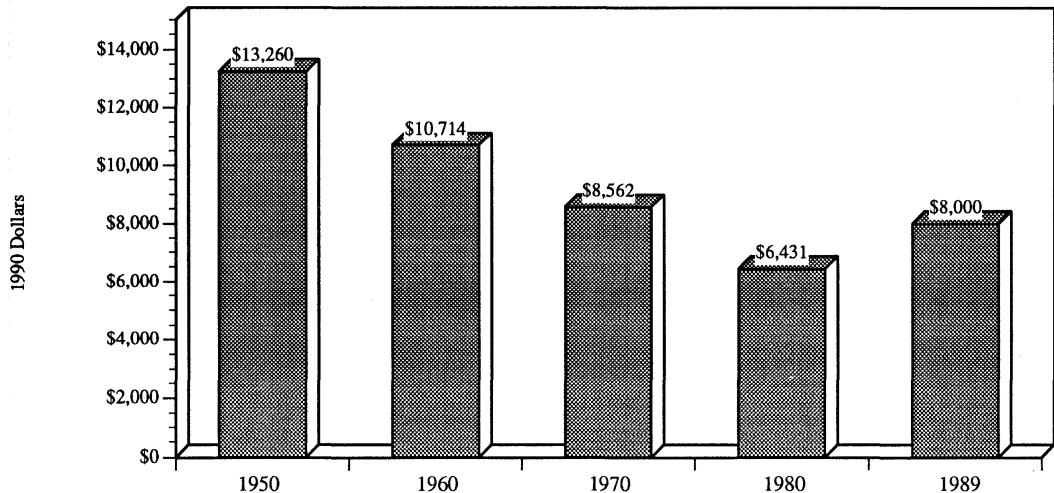
As with tax revenues, tax rates have climbed during the twentieth century. When the first individual income tax was passed in 1913 the rates ranged from 1 to 7 percent. At the time, opponents charged that it would not be long before the rates were raised to the unthinkable level of 10 percent! Supporters countered that this would never happen. History has proven them wrong:

- By 1916 the top rate was more than doubled to 15 percent.
- By 1917, the start of World War I, the top rate was raised to 67 percent.
- In 1944, during World War II, the top rate was raised to 94 percent.
- In the 1950s the top tax rate remained at 91 percent.
- During the Reagan years the top marginal rate was chopped to 28 percent.
- Today the top marginal rate is 32 percent with proposals in Congress to raise the rate to 40 percent or more.

Although the Kennedy and Reagan administrations cut the tax rates, at lower rates the government is collecting more revenue than ever before. For instance, from 1980 to 1992 federal income tax collections rose by roughly \$150 billion. Moreover, the share of

Figure 7

**Value of Federal Income Tax Dependent Exemption
Family with Four Children, 1950-1989**



the income tax burden borne by the richest 10 percent of Americans rose from 48 to 56 percent from 1981 to 1989. Virtually every country in the world today recognizes the economic benefits of lower marginal tax rates in stimulating work and in attracting investment. Every industrialized nation in the world has lower marginal income tax rates today than in 1980.

Although income tax rates have been shaved in the past decade, for middle-income American families with children the income tax burden is higher than ever before. One reason is that the value of the dependent child exemption has steadily eroded over the inflationary post-World War II period. Figure 7 shows:

- In 1950 the exemption was \$600 per child. In 1990 dollars, for a family with four children it would have been worth \$13,260.
- In 1989 the value of the personal exemption was \$2,000 per child, or \$8,000 for a family with four children.
- The failure of the dependent exemption to keep pace with inflation means that the average family with four children pays taxes on \$5,000 more income than it otherwise would.

Another reason that the middle class is

feeling the crushing burden of taxes in recent years is that Social Security payroll taxes have continually risen since their inception in 1937. Figure 8 shows:

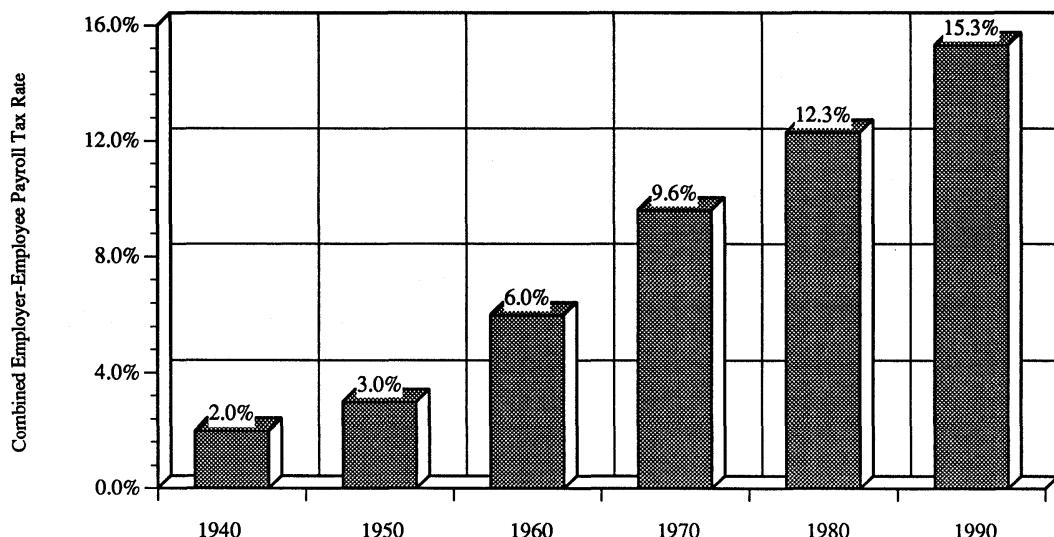
- The first Social Security payroll tax rate, which was in place from 1937 to 1950, was 2 percent.
- By 1970, after the introduction of Medicare and the hospital insurance tax, the payroll tax rate was 9.6 percent.
- By 1980 the rate was 12.3 percent.
- By 1990 the rate was 15.3 percent.

Today, the average middle-income family pays a greater share of its income in payroll taxes (when including the employer's share of that tax) than in income taxes. That is why reducing payroll taxes may be the most effective means of reducing the tax burden on middle-income and low-income working families.

Borrow and Spend

In the past several decades the government's *modus operandi*, tax and spend, has been expanded to include a new government financing scheme: Borrow and spend. For the first 150 or so years of this nation, government borrowing was confined to

Figure 8

Social Security Tax Rate, 1940-90

times of war. There was a moral, though not a Constitutional, imperative that government not pass on the costs of its spending to future generations. This moral restraint lasted until the 1930s.

During the Great Depression the most prominent economist of the first half of the twentieth century, John Maynard Keynes, introduced his economic theory, which in effect legitimized deficit finance as an appropriate tool of government. The Keynesian theory was that government should borrow when times are tough and then pay back the debt during times of economic expansion. President Franklin Roosevelt was the first president to embrace this theory, which fit well with his New Deal domestic spending plans. By stripping away the prevailing moral restraint against government borrowing, Keynes opened the floodgate for massive deficit spending. By 1970, Richard Nixon declared, "We are all Keynesians now," a prophetic statement. Government red ink would soon flood to once unthinkable heights as each subsequent Congress used more and more debt as a way of avoiding having to say no to the army of Washington special interests with insatiable demands for taxpayer money.

- The federal government has only balanced the budget once in the past 25 years.
- In 1992 the federal deficit reached an all-time high of \$290 billion, a peacetime record and 6.5 percent of GDP. The 1993 deficit is expected to break that record.
- The federal government now borrows \$700,000 million every minute of every day, 365 days a year—more than \$11,000 every second.

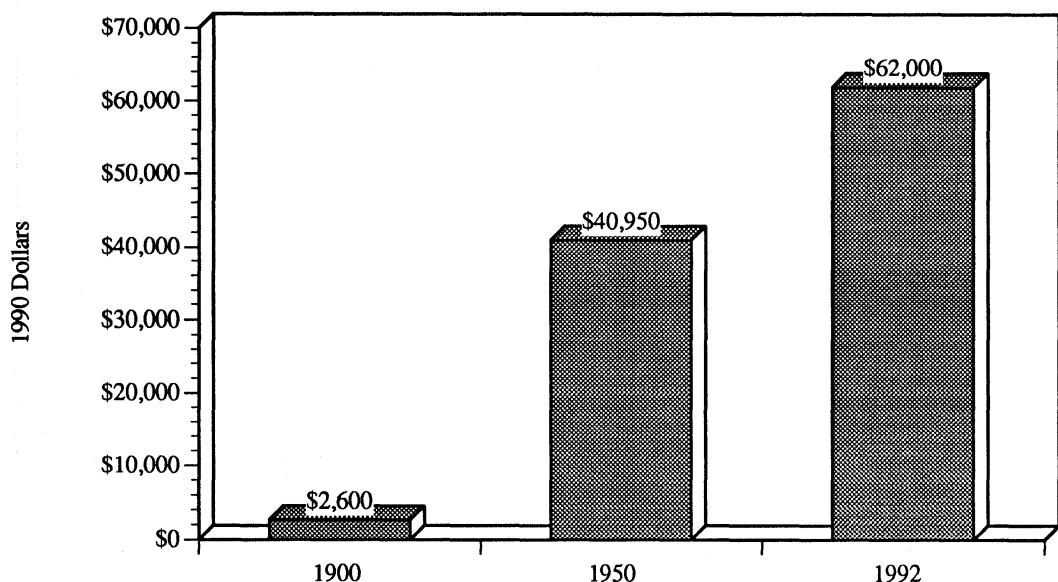
One consequence of this borrowing binge has been a mushrooming of the national debt. **Figure 9** shows:

- In 1900 each family of four carried a \$2,600 share of the national debt.
- In 1950, each family of four carried a \$41,000 share of the national debt.
- Today each family of four carries a \$62,000 share of the national debt.

Interest on the Debt

Another consequence of this borrowing binge to finance a massive expansion of government programs has been that Americans are paying more and more taxes just to pay interest on the debt. **Figure 10** shows that interest is one of the fastest growing areas of the federal budget:

Figure 9

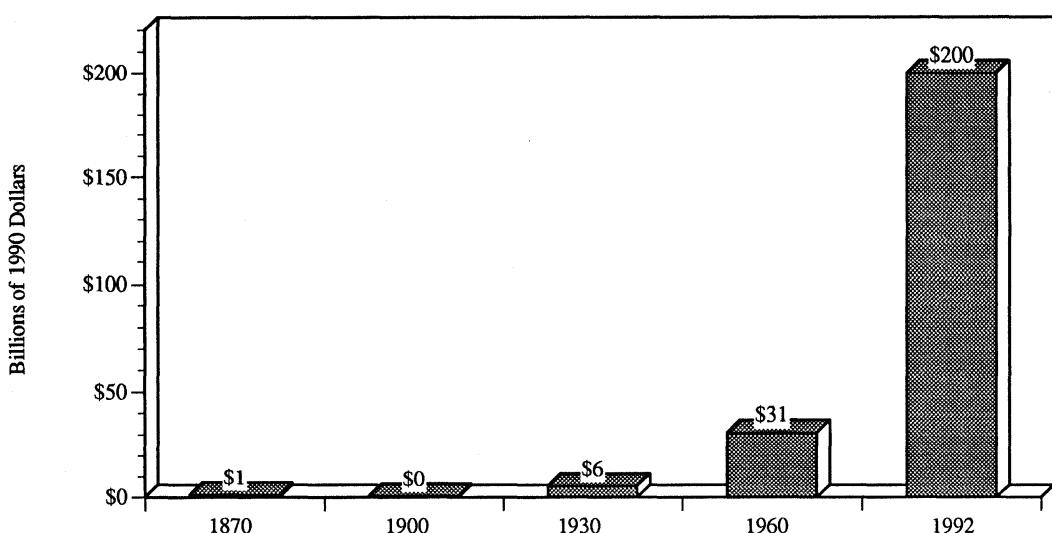
Real Federal Debt per Family of Four, 1900-1992

- In 1900 interest expenditures were \$1 billion.
- In 1960 interest expenditures were \$31 billion.
- In 1992 interest expenditures reached \$200 billion.

The American public understands full

well that no institution can continue to spend beyond its means year after year without risking financial ruin. Perhaps the only way to end this fiscally reckless pattern of deficit spending is to amend the Constitution with a balanced budget/tax limitation requirement. Such a measure commands the

Figure 10

Real Federal Interest Expenditures, 1870-1992

support of three-fourths of the public—and has so for almost two decades. Yet, for obvious reasons, Congress has been reluctant to slay its cash cow. Even when the deficit set new records in 1992, the House of Representatives defeated the balanced budget amendment.

A Nation “Entitled”

A great challenge in modern-day America is to find some member of the public who does not receive a check from the government for one purpose or another. Every week the federal government sends out billions of dollars to farmers for growing (and in some cases, not growing) crops; to veterans for health care or retirement; to the unemployed for not working; to those with low incomes to pay for food and shelter; to college students to pay for school; to the elderly for being retired; to the elderly and poor to pay for health care; to unwed mothers to pay for the care of their children; and on and on. Fifty or 100 years ago most of these transfer programs did not exist. Today even the slightest whisper of budget cutbacks in these programs is met with howls of protest. In short, we have become a nation of citizens who regard themselves as entitled to the largesse of government.

What is the impact of such spending on economic growth? None of these programs is oriented toward the legitimate function of government in ensuring the public safety, nor are they even building bridges or roads or cleaning the environment. These programs are not designed to create wealth in our society; they are designed solely to redistribute it. Thereby, they interfere with and destroy the wealth creation process.

The alarming trend in federal, state, and local social welfare spending can be tracked from 1900, because prior to that time there were virtually no federal transfers, except for veterans' benefits, and the only significant state and local transfers were small public aid programs.

- In 1900 the government spent \$10 billion on social welfare.

- In 1950 the government spent \$130 billion on social welfare.

- In 1988 the government spent \$980 billion on social welfare.

It is noteworthy that in 1950 these transfer programs constituted roughly 12 percent of the federal budget. Today they consume almost 40 percent. In the 1989 to 1992 period alone, real federal expenditures on entitlements grew by \$140 billion.

Welfare

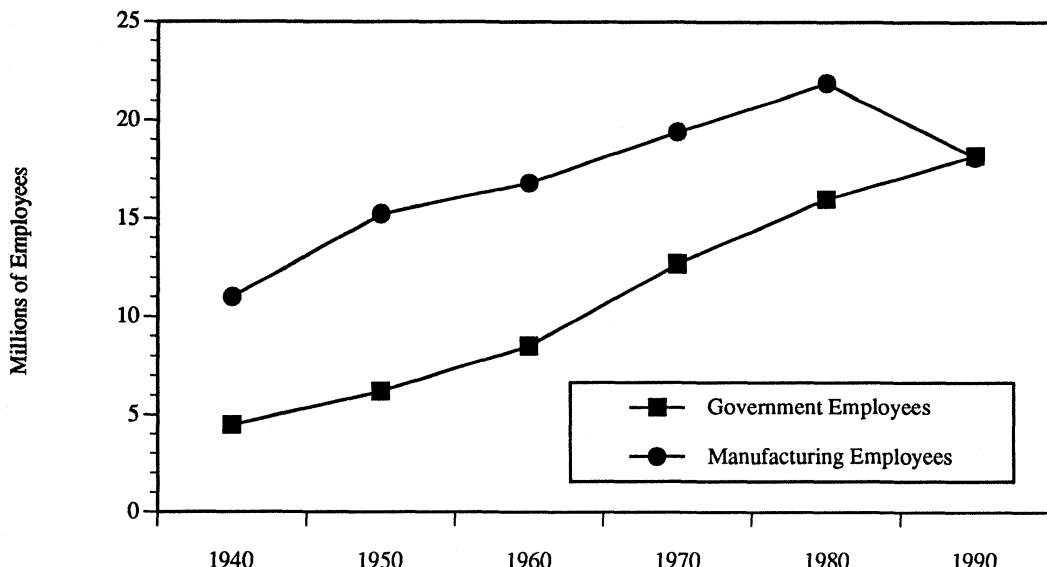
A huge portion of our social welfare spending today is for Social Security. Social Security is the largest and most popular program in the federal budget. Some have suggested that it is only Social Security that is growing rapidly, not other income transfer programs, such as welfare. This is not so. The anti-poverty programs are growing too. Total Aid to Families with Dependent Children (AFDC) spending at all levels of government has increased dramatically over the past 50 years:

- In 1940 public assistance spending was \$1.3 billion.
- In 1970 public assistance spending was \$16.6 billion.
- In 1992 public assistance spending was \$18 billion.

The primary reason that total welfare spending is growing is not that the benefit levels are substantially more generous, but rather that welfare caseloads continue to explode. The number of AFDC recipients continues to grow:

- In 1936 in the middle of the Depression there were just over one-half million recipients.
- In 1950 there were 2.2 million recipients.
- In 1970 there were 9.7 million recipients.
- In 1992 there were 13 million recipients.

Other public welfare programs show the same pattern of increase. For example, the food stamp program, started with a budget of less than \$2 billion in 1970, now has a budget of \$23 billion. Today there are roughly 25 million people collecting food stamps—or nearly one of every ten Americans. Millions of able-bodied Americans are

Figure 11**Government Employment Outpacing Manufacturing Employment**

now collecting government checks, making welfare one of the fastest growth industries in America today.

Despite the huge outlays on anti-poverty programs, this spending has done amazingly little to reduce poverty. One reason for this lack of success is that welfare spending is badly misallocated. Another is that welfare spending actually creates poverty.

- In 1990 government anti-poverty spending equaled \$184 billion.
- In 1990 it would have cost only \$75 billion to bring every family with an income below the poverty level up above that benchmark. Hence, government was spending two-and-a-half times what would be needed to end poverty in America.
- However, after that \$184 billion was spent, some 30 million Americans remained below the poverty level.
- More than half of all welfare recipients had *pre-welfare incomes* above the poverty level.
- The welfare industry intercepts a huge portion of anti-poverty funds. In cities such as Milwaukee, there are now 62 separate welfare programs, each with its own bureaucratic costs.

All told, since the early 1960s, govern-

ment at all levels has spent \$3.5 trillion on programs for the poor. Yet there are more poor in 1993 than there were in 1963. Sadly, there is much truth to the adage that America has fought a war on poverty, and poverty won.

Civilian Employees

Government bureaucracy has grown at a steady pace at the federal, state, and local levels. In the past 20 years private sector union membership has shrunk, while public sector unions have record membership. Most of this growth in public employment has been at the state and local levels.

Today there are 18 million civilian government employees, up from 8.5 million in 1960 and 4.5 million in 1940. For the first time ever, in 1992 there were more civilian public sector employees than manufacturing employees in the U.S., as shown in **Figure 11**.

With the growth in the number of government workers, America has witnessed a growth in government payrolls:

- In 1940 government spent \$5 billion on monthly payroll.
- In 1960 government spent \$14 billion on monthly payroll.

- In 1990 government spent \$36 billion on monthly payroll.

Although the 1980s are conventionally believed to have been a decade of hardship for public employees, the truth is that on the state and local levels government pay went up much faster than private sector pay. A 1992 report by the American Legislative Exchange Council (ALEC) shows:

Average state and local government employee compensation (including wages, salaries, and employee benefits) has been rising more quickly than average private employee compensation for 40 years. . . . Average state and local government employee compensation increased by an inflation-adjusted 14.6 percent, or \$4,031, in 1989 compared to 1980. For every new dollar of average compensation increase for private sector employees, state and local government employees received more than \$4.20.

Hence, today the compensation for public employees in many areas and many occupations is significantly above that of private sector workers. The government is a very generous employer, as illustrated by the following examples:

- The average public sector bus driver earns 70 percent more than the average private sector bus driver.
- Reliable studies show that postal workers make fully one-third higher salaries and benefits than comparably skilled private sector workers.
- The voluntary quit rate from the federal government was lower in 1987 than the private sector quit rate during the peak of the Great Depression when unemployment rates exceeded 20 percent.
- The average pay for a New York City school janitor is \$57,000, with some earning as much as \$80,000.
- After 15 years on the job, the average New York City employee receives 51 days off, including holidays, vacation time, sick leave, and so on. That is, some New York city employees work the equivalent of 4 days a week.

As the ALEC study concludes, America's government workers have become "a protected class." Unfortunately, for the taxpayers who pay their inflated salaries, these workers are a rapidly growing protected class.

Military Employees

These numbers do not include the largest government employer of all: the military. Indeed, the U.S. Department of Defense is the largest employer in the United States—public or private. The number of Americans employed in the armed services has continually risen:

- In 1800 there were 7,000 military personnel.
- In 1850 there were 20,000 military personnel.
- In 1900 there were 125,000 military personnel.
- In 1950 there were 1,500,000 military personnel.
- In 1990 there were 2,200,000 military personnel.

These numbers do not include any of the civilians who work for defense contractors producing weapons, providing equipment, and performing research and development. If these indirect government workers, part of the military-industrial complex, were included, the employment numbers could easily double.

Conclusion

American government has far outgrown the limits set by our founders in the Constitution. If the twenty-first century is to be the American century, government must be redirected to its proper and legitimate role. The growth of government is the greatest tragedy of the twentieth century. □

For a copy of the complete report from which this essay is taken, please write or call The Institute for Policy Innovation, 250 S. Stemmons, Suite 306, Lewisville, Texas 75067, (214) 219-0811.

CAN VOLUNTARISM SURVIVE THE TAXMAN?

by James L. Payne

The envelope from the Idaho State Department of Employment came on a Friday. I remember because it was the day after our Thursday night budget meeting on the impending insolvency of our voluntary organization.

Our group runs the animal shelter in the north Idaho community of Sandpoint, providing a humane solution to the problem of unwanted dogs and cats. We return lost pets to owners, and provide for pet adoption, quarantine, and euthanasia. We also organize pet responsibility education for the schools, and a pet therapy program for residents of nursing homes.

This highly successful service is supported on a voluntary and philanthropic basis. Our only connection with government is that we charge the town for the strays its animal control officer delivers to us. These charges make up less than five percent of our revenue. The backbone of our finances are memberships, donations, private foundations, and fund-raising activities. The efforts of our three paid staff members are supplemented by scores of volunteers (who logged a total of 9,317 hours in 1991). The nine board members are all active volunteers at the shelter, so they can make fully informed, sensitive decisions about shelter policies

and personnel. All in all, the shelter represents a model of community action: an organization based on the principles of generosity and neighborliness, efficiently providing a needed public service.

Unfortunately, this civic idyll is threatened. The enemy is not greed, or indifference, but society's own do-good agency, government. To a degree seldom appreciated by legislators, government taxation is undermining the public service activities of voluntary groups like ours. This will surprise those who assume that voluntary groups are exempt from taxes. Their mistake is forgetting that there are many, many taxes these days, and that non-profits are exempt from only a few.

As I noted, we are in financial difficulties. After allowing for one-time expenditures, our underlying deficit for the first quarter of 1992 was \$423 monthly. This shortfall is more than accounted for by the funds that governmental units are taking away from us. The figures show that we paid out \$250 a month in federal payroll taxes, and \$217 a month in state worker compensation taxes.

Even our fund-raising is burdened with taxes. We have a thrift shop, entirely staffed by volunteers, which resells cast-off clothing. This operation supplies a triple social benefit: it aids recycling; it supplies low-cost clothing for the needy; and it provides us with one-third of our income. Because our volunteers can't keep track of the sales tax

James Payne is President of Friends of the Shelter in Sandpoint, Idaho, and author of a recent book on the burdens of the U.S. tax system, Costly Returns, published by ICS Press.

on each purchase, we have to deduct it from our overall earnings. This outgo came to \$251 monthly.

The Idaho sales tax hits us as purchasers, too. Some politically well connected non-profits—including the American Cancer Society and forest protective associations—have wrangled exemptions from the legislators, but not animal shelters. Whether we buy a refrigerator to store vaccines or envelopes for a fund-raising drive, we pay an additional five percent “for the governor.” So there’s another \$50 per month lost.

In addition to the \$768 monthly drain of all these taxes, government’s tax reporting and depositing requirements create extra work and expense. For example, we paid \$275 for tax return preparation.

Yet Another Burden

In this bleak picture there seemed to be one encouraging aspect. There was no unemployment insurance tax figuring in our list of expenditures. I took this to mean that in its heart of hearts the state was aware of our worthy public service activities and had thoughtfully lifted this burden from us. That was before I opened the envelope from the Idaho Department of Employment.

Inside, written in the menacingly incoherent language that government computers speak these days, was a document indicating a state financial demand. A morning of hectic telephoning disclosed a disaster. We were not exempt from the unemployment tax burden after all. In our case, that burden was being carried as a requirement to pay the specific unemployment claims of ex-employees. A former worker had filed such a claim and we were liable for the entire amount, \$4,680.

Of course we contested the claim. We gathered data, interviewed volunteers, took statements, prepared testimony, consulted lawyers, and participated in a grueling five-hour hearing. While we were struggling against this state-imposed snare, our other activities suffered. Fund-raising was put on

the back burner, and shelter supervision was shortchanged. After four months (and several bureaucratic bungles that required an appeal to our state legislator to unravel), the employment department issued its decision: we still owed the \$4,680. The burden doesn’t even end there. In order to avoid such catastrophic bills in the future, we shall have to sign up to be taxed on a regular basis for the unemployment system; this will add another \$700 a year to our costs.

To put these sums in perspective, when volunteers like myself sit at a donation table in the Safeway, we do well to raise \$20 in a two-hour shift. Our July ice cream social, which drew on the generosity and sacrifice of 34 volunteers, 27 cake donors, and four business donors, raised \$1,041.49. This amount, the reader will notice, was less than one-quarter the amount the state of Idaho took from us in the unemployment claim. How long can the idealism and morale of our volunteers withstand this sinister arithmetic?

Should lawmakers try to help voluntary groups by giving them more tax exemptions? The solution is not this simple. For one thing, exemptions usually increase the tax compliance burden, since they require recordkeeping and justification. (Those who itemize deductions will appreciate the point.) For another, more exemptions for non-profits would exacerbate the problem of unfair competition with the for-profit sector. After all, ordinary businesses also provide needed community services. Government shouldn’t be making life difficult for the animal shelter, but the solution is not an intensified war against shoemakers, dentists, and plumbers.

What our lawmakers have to realize is that taxation, for whatever well intentioned purpose, always does social harm. It undermines, often unwittingly, cherished institutions and functions. Volunteer groups illustrate this truth. Politicians pay lip service to generosity, self-help, and community problem-solving. Yet with their tax programs they are driving nails into the coffin of American voluntarism. □

JUDGING POLITICIANS

by Rick H. White

Perhaps the greatest single problem facing the American voter over the next few years is the fact that too many of our elected representatives do not really understand the system that they have been elected to uphold and defend.

The actions and utterances of politicians from city hall to the U.S. Capitol reveal, at best, a failure to appreciate our Constitution and its basic principles or, at worst, an outright contempt for the system that has built this nation.

Many elected officials firmly believe that they know better what is good for us than do the voters who elected them. Some believe that we must be tricked or coerced into doing the "right thing." Many apparently view the Constitution and the Bill of Rights as ancient documents that simply get in their way and must be outmaneuvered at every turn. Many of our elected officials have demonstrated that they are incapable of leading their own lives in a rational manner but believe they are capable of dictating how the rest of us should live ours.

This doubting of our Constitution is not a new phenomenon. Many good men who fought and bled for the birth of our nation had serious doubts about whether or not our form of government could endure. Nations, until ours, had generally been ruled by some sort of elitist class and the very idea that a

government could be drawn from the "common herd" was laughable to many.

The strength of our Constitution has been proven by the fact that despite decades of elected representatives chipping away at it and trying to destroy its foundations, it is still the soundest document ever devised by, and for, men who wish to live together in peace. Those foundations have been eroded to an alarming degree, but the basic principles are intact and still holding this nation together. Our Constitution is still the envy of much of the world and the model others follow.

The most spectacular success stories of the post-World War II era are the countries that emulated us, Japan and West Germany. The most spectacular failures of the same period are those of the Soviet Union and its satellites who believed in a controlled economy and an all-powerful central government.

In the future, we need to start seeing our politicians in a new light. We have been demanding a handful of solutions to a few specific problems while paying little or no attention to the principles a particular politician espouses. For far too long we have been willing to elect the least objectionable candidate who sought the job rather than seeking out the best among us.

The past year or two have shown that a great many voters are tired of the status quo. But this voters' rebellion has been without a cause, simply striking out at political "ins" without a constructive formula for correcting the evils that exist.

We all have our little axes to grind. If a

Rick H. White worked for Ayn Rand back in the '60s and managed the Nathaniel Branden Institute Book Service. He resides in Tampa, Florida.

man can come up with the proper bromides to appease a majority of us, he's in, even though we know nothing of his principles.

If a politician has a specific formula for creating more jobs and improving our economy, fine, we should hear it, but more important are the principles upon which that politician can be expected to act during his term in office. Does he believe in limited government or in cradle-to-grave protection? Does he believe in a free-market economy or in government intervention and management? If you really know the principles upon which a person is acting, you know what his specific actions will be in regard to specific problems.

The erosion of many of our freedoms and much of our success economically has been accomplished with, if not our blessings, more than a little help from us who vote without thinking about what we are really getting.

How can we seriously believe that someone who has bounced checks every month for years is going to handle national finances astutely? Such a person doesn't understand financial problems and certainly doesn't know how to make long-range plans.

How can we take seriously the moral leadership of someone who admits having spent years cheating on his spouse? If he would cheat the person he supposedly loves above all others, why wouldn't he cheat the rest of us?

How do you believe someone who says, "Yes, such-and-such company has contributed millions to my political campaigns over the years, but I don't owe them anything"? He is either telling a lie or, perhaps worse, if he really believes that nothing is expected in return for those millions, is so naive that he is dangerous.

Should we expect perfection? Why not? You may never find it, but you should always seek it.

There are certain requirements that go with certain jobs. You don't hire a bank teller who is known to gamble away his salary on the horses every week. You don't hire a policeman who has a \$200-a-day

cocaine habit. You don't seek spiritual help from a minister who gets drunk every night and beats his wife. We demand certain things from bank tellers, policemen, ministers, and others. Should we expect less from our elected representatives? Being an elected representative demands a high degree of integrity and an absorbing dedication to correct principles.

A Matter of Character

When an individual gets into debt over his head, drinks too much, or cheats on his wife, we ignore it and say it is his business. The fallout from his actions is limited to those immediately involved with him. When an elected representative does such things it is everyone's business. It speaks of character flaws that we cannot tolerate in one who is responsible for our lives in so many ways.

Is this a double standard? One set of rules for us mere mortals and another for our elected representatives? You bet it is. When a man decides to be a police officer he knows that certain types of personal behavior are precluded. It is the same for most of us to one degree or another. Banker, doctor, lawyer, priest, employer, employee, parent—whatever our role in life we have certain obligations that preclude certain acts. An elected representative should be as much above reproach as he is capable of making himself. If you don't like the standards, don't run for public office. If you can't take the heat, get out of the kitchen.

The best of us make mistakes, but a mistake is one thing, a way of life is another. We must begin seriously seeking, for city and county commissions, state and federal offices, people who seriously believe in the principles of a free market, private enterprise, and limited government. Not those with glib answers and a quick fix, but those who can stay the course.

It is not unrealistic to seek the best among us to represent us. It is unrealistic, and dangerous, to think we can survive without principles and without elected representatives who believe in those principles. □

THOMAS JEFFERSON: LIBERTY AND POWER

by Clarence B. Carson

It is doubtful that Thomas Jefferson could have been elected President in the twentieth century. It is almost equally doubtful that he could have been elected to that high office at any time past 1850. Now I do not draw these conclusions simply because, as we say, times change, and any person thrown suddenly into another era would be more or less out of place and unsuited to positions of power and prestige in the later era. It is rather that Jefferson did not have the temperament, character, and turn of mind to have won election in the later era.

The Man

Jefferson shrank from public debate as a young child does from going into the darkness alone. He avoided, so far as possible, all occasions for public speaking. He disliked pomp, ceremony, confrontations, and heated discourse. As President, he preferred written opinions from his department heads rather than to convene cabinet meetings in an attempt to reach conclusions. He was tall, gangly, freckled, sandy-haired, and some thought they detected a sneakiness about him. For this latter reason, especially,

he would probably have been a disaster on television, where openness and straightforward honesty of appearance is essential, though actors can feign such looks with ease, while honest men with a squint might be thought scoundrels. Some thought Jefferson was being overly anxious for popular approval when he did not speak out on controversial matters. The truth may be otherwise; Jefferson loved the truth too much to see it traded casually in the marketplace.

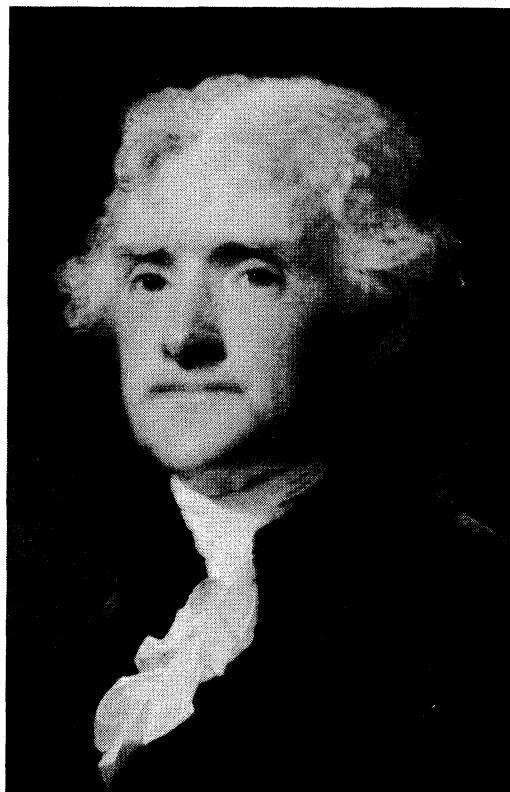
In any case, Jefferson was retiring and what we would call "cerebral." Possibly no man since Aristotle took more pleasure in observing, recording, and classifying or describing natural phenomena than did Jefferson. Indeed, when time permitted, he filled notebook after notebook with such observations. Jefferson had an active and innovative interest in every intellectual pursuit and activity of his day. He carried on a vigorous correspondence with European and American philosophers and scientists throughout much of his life. His talents were varied and his interests universal. He was trained in the law and admitted to the bar, served in the colonial legislature of Virginia and the Second Continental Congress, drafted the Declaration of Independence, was elected governor of Virginia, was a prolific writer, served as Minister to France, was first Secretary of State of the United States, and was elected second Vice President and third President of his country.

Dr. Clarence Carson is an American historian, a prolific author, and a longtime contributor to The Freeman. This essay is based on his newest book, Basic American Government, which is available from The American Textbook Committee, Rte. 1, Box 13, Wadley, AL 36276, for \$32.95 hardcover.

As if all that were not enough, he was a gentleman farmer, a manager of a large estate, a scientist, an inventor, and an architect. Of his inventions, "He invented a hempbeater, worked out a formula for a mold board plow . . . , devised a leather buggy, a swivel chair, and a dumbwaiter. . . . He was constantly studying new plows, steam engines, metronomes, thermometers, elevators, and the like, as well as the processing of butters and cheeses. He wrote a long essay for Congress on standards of weights and measures in the United States . . . , [and] conceived the American decimal system of coinage"¹

Indeed, books could be written, and many have been, on Jefferson's life and attainments. Several of his contributions, each on its own, might have earned him a secure place in American history. Almost certainly his authorship of the Declaration of Independence would have made him a fixture in the firmament of the Founders. His Virginia Bill of Religious Liberty was a classic statement even before it was adopted by that legislature. His two terms as President by themselves have earned him a place among *America's Ten Greatest Presidents*.² His efforts in founding the Jeffersonian Republican Party would surely have been remembered, as would his architectural contributions for the University of Virginia, the magnificent concept of Monticello, and his background aid for the layout of Washington, D.C. Much more could be named, but surely his eminence has long since been established.

Jefferson himself wanted to be remembered for his authorship of the Declaration of Independence, the Virginia Bill of Religious Liberty, and his contribution to the founding of the University of Virginia. These are indeed enduring monuments, though his First Inaugural Address is no less one. Yet there is something else that he did for which he most needs to be remembered in our time. Jefferson was a vigorous and instructive advocate of the constitutional dispersion of powers of government—the separation of powers within the United States government and their dispersion be-



Thomas Jefferson, 1743–1826

tween the central and state governments. He championed this aspect of the Constitution because it limited government, and limited government was essential to individual liberty.

Defender of Liberty

It is well known, of course, that Thomas Jefferson was an outspoken advocate of individual liberty. He defined it this way: "Of liberty then I would say that in the whole plenitude of its extent, it is unobstructed action according to our will, but rightful liberty is unobstructed action according to our will within limits drawn around us by the equal rights of others."³ Moreover, Jefferson professed a passionate attachment to liberty. He wrote to Dr. Benjamin Rush that he had "sworn upon the altar of God eternal hostility against every form of tyranny over the mind of man."⁴ His belief in liberty was based in the natural rights doctrine, itself grounded in natural

law theory. Most proponents of natural rights maintained that natural rights were altered and reduced when man entered society. Jefferson, by contrast, argued that "the idea is quite unfounded that on entering into society we give up any natural right."⁵ In any case, Jefferson was a vigorous advocate of individual liberty.

There should be no doubt, either, that Jefferson believed that government was the greatest, if not only, threat to individual liberty. He wrote that "The natural progress of things is for liberty to yield and government to gain ground."⁶ This is so because those who gain positions of power tend always to extend the bounds of it. Power must always be constrained or limited else it will increase to the level that it will be despotic. Jefferson wrote to Judge Spencer Roane in 1819, "It should be remembered, as an axiom of eternal truth in politics, that whatever power in any government is independent, is absolute also"⁷ With this principle of necessary limitation in mind, Jefferson declared "that a bill of rights is what the people are entitled to against every government on earth, general or particular; and what no just government should refuse, or rest upon inference."⁸

Nor did his many years in government service assuage his fears of government nor lead him to view it as any less a threat to liberty. If anything, it confirmed him in his earlier beliefs about not entrusting overmuch to those in power. But it was not so much Jefferson's tenacious attachment to liberty nor especially his fear of government power that set him apart from many of his contemporaries. Most American leaders of the founding era expressed similar beliefs. It was also widely believed that the powers of government should be separated and balanced so that men in power, in their struggle with others for power, would be constrained and limited in their exercise of power. This was generally believed to be the necessary condition for the continuation of liberty.

Most of Jefferson's contemporaries subscribed to the idea that the powers of government should be dispersed—at least so far as to divide them among the three branches.

Many became persuaded, too, that dividing the powers of government between the general and state governments was a good thing. But few, if any, saw as clearly as Jefferson did how much effort had to be put into making such a system work and how far the effort had to be carried.

If the system of checks and balances is to work, he thought, it would be because those entrusted with power used their imaginations, wills, and determination to protect their interests and assert their prerogatives. Checks and balances entail tension, an ongoing and, above all, unresolved tension, and men are usually disinclined to live with unresolved tensions. The natural inclination is to establish some authority who, or which, has the assignment to settle the issues, once and for all, and resolve the tension. Jefferson understood more clearly than anyone else ever has, or at least discussed it more clearly, that the resolution of these tensions—arising from different claims to power among the branches or between the states and the United States—would be to remove the checks and balances.

Balances and Checks

For Jefferson, the preserving and working of the checks and balances in government depended upon where the authority was lodged to interpret the Constitution. The ink was hardly dry on the Constitution before some were asserting that the federal courts alone could interpret the Constitution and that the ultimate authority to do so was the Supreme Court. Indeed, that view was widely held and claimed by much of the federal judiciary before the end of the 1790s. (Judges have never been noted for being reluctant to extend their authority.) Jefferson was hardly alone in opposing this view, but he was almost certainly the most thorough in working out and asserting a counter-position.

While he was President, he asserted his position by his action (or inaction) rather than by theories, but after he had left office he made clear in letters and otherwise his

position. For example, he wrote in a letter in 1820: "You [William C. Jarvis] seem . . . to consider the judges as the ultimate arbiters of all constitutional questions, a very dangerous doctrine indeed and one which would place us under the despotism of an oligarchy . . . The constitution has erected no such single tribunal, knowing that, to whatever hands confided, with the corruptions of time and party its members would become despots."⁹

Several editors of newspapers had been found guilty of violating the Sedition Act of 1798 and sent to prison. When Jefferson became President, he pardoned and freed such of them as were still in prison. In correspondence with Abigail Adams in 1804, he justified his action this way:

You seem to think it devolved on the judges to decide on the validity of the Sedition Law. But nothing in the Constitution had given them a right to decide for the executive, more than to the executive to decide for them. Both magistrates are equally independent in the sphere of action assigned to them. The judges, believing the law constitutional, had a right to pass a sentence of fine and imprisonment, because the power was placed in their hands by the Constitution. But the executive, believing the law to be unconstitutional, were bound to remit the execution of it, because that power has been confided to them by the Constitution. That instrument meant that its co-ordinate branches should be checks on each other. But the opinion which gives to the judges the [sole] right to decide what laws are constitutional . . . would make the judiciary a despotic branch.¹⁰

Jefferson's position was that neither the United States, nor any of the branches of the government, nor of the states, is the ultimate arbiter of the Constitution. Ultimate authority is not vested in the United States government. It is a limited government. On the dispersion of powers among the governments, he wrote to Joseph C. Cabell in 1816: "Let the national government be entrusted with the defence of the nation, and its

foreign and federal relations; the State governments with the civil rights, laws, police and administration of what concerns the State generally; the counties with the local concerns of the counties . . . , and so forth. "It is by dividing and subdividing . . . that all will be done for the best. What has destroyed liberty and the rights of man in every government which has ever existed under the sun? The generalizing and concentrating all cares and powers into one body"¹¹ The ultimate arbiter of the Constitution, Jefferson explained, "is the people of the Union, assembled by their deputies in convention at the call of Congress or of two-thirds of the States."¹² In short, if some issue of power so agitates the country, let the matter be settled and put to rest by constitutional amendment.

Jefferson rightly discerned that if any body in government could ultimately settle questions of the location of constitutional authority, it would tend to settle them in favor of the government to which it belonged, and ultimately its very own body. In short, the tendency would be to concentrate all authority in one body, and that body would have few or no restraints on its authority. Such a concentration of power would sooner or later be arbitrary and capricious and hence tyrannical. The greatest likelihood of such concentration would be in the general government at the expense of the state governments and the people.

No Judicial Supremacy

And, in the general government, the greatest danger of one branch usurping all power, Jefferson thought and feared, was the federal judiciary, and especially the Supreme Court. Lest it be thought that Jefferson was picking on these courts and denying them their constitutional authority, his full position on the division of power in the federal government should be explained. Jefferson understood that the federal courts had an important role in interpreting the Constitution. In determining which law to apply to particular cases, they must, of course, interpret and apply the Constitu-

tion. The Supreme Court would have the final say on the law—so far the *courts* and *matters that properly concerned them* were at issue. But its interpretations would have no sway over the other branches as to the meaning of the Constitution in matters that concern them. He explained it this way:

"My construction of the constitution . . . is that each department is truly independent of the others, and has an equal right to decide for itself what is the meaning of the constitution in the cases submitted to its action; and especially, where it is to act ultimately and without appeal. I will explain myself by examples, which having occurred while I was in office, are better known to me . . . :

A legislature had passed the sedition law. The federal courts had subjected certain individuals to its penalties of fine and imprisonment. On coming into office, I released these individuals by the power of pardon committed to executive discretion, which could never be more properly exercised than where citizens were suffering without the authority of law, or, which was equivalent, under a law unauthorized by the constitution, and therefore null. In the case of Marbury and Madison, the federal judges declared that commissions signed and sealed by the President were valid, although not delivered. I deemed delivery essential to complete a deed, which, as long as it remains in the hands of the party, is as yet no deed . . . , and I withheld delivery of the commissions. They [the courts] cannot issue a mandamus to the President or legislature, or to any of their officers."¹³

In sum, he held that all the branches of government are independent of one another in the sources of their powers and the exercise of them, including each of the houses of Congress. In performing their constitutionally assigned duties, they are the judges of constitutionality. Thus, either house of the Congress may decide that a bill before it is unconstitutional, and refuse to pass it. The bill cannot become law, in that



Monticello, Virginia, home of Thomas Jefferson

case, and the power of all the other branches are impotent to make it otherwise. In like manner, the President, acting within the frame of his office, may veto bills, refuse court orders, and pardon those convicted of crimes. The courts, too, are independent within their realms. Are, then, the members of the legislative and executive branches above the law? Jefferson would have denied that emphatically. They are presumably acting according to their interpretation of the Constitution within their departments as the courts are presumably acting in accord with their interpretation of the Constitution in theirs. The ultimate arbiters or judges of the propriety of acts of the legislative and executive branches are their electors. If in the judgment of those authorized to choose them they have behaved improperly, they may be turned out of office at the end of their terms.

But what about the federal courts? Who would rule on the propriety (or constitutionality) of their acts? There was the rub, as Jefferson saw it, and he was substantially correct. The courts, and especially (always) the Supreme Court, are a law unto themselves, in effect. The appointment of judges is for life during good behavior, if they so desire. They have no fixed term of office, no

time when they must return to their electors for re-election. True, a judge may be removed from office when impeached by the House of Representatives and convicted by two-thirds of the Senate present of "treason, bribery, or other high crimes and misdemeanors." Not only is it quite difficult to get a two-thirds vote from the Senate for conviction, but it is not at all clear that usurpation of power or misconstruing the power of the court under the Constitution is an offense by the above definition.

At any rate, Jefferson doubted that the fear of impeachment was little more than a paper tiger, or as he put it frequently in private correspondence, "not even a scarecrow." He put the danger this way: "We already see the power, installed for life, advancing with a noiseless and steady pace to the great object of consolidation. ["The engine of consolidation," he had said, "will be the federal judiciary"] The foundations are already deeply laid by their decisions for the annihilation of constitutional state rights, and the removal of every check, every counterpoise to the engulfing power of which themselves are to make a sovereign part."¹⁴

"At the establishment of our constitution," Jefferson wrote, "the judiciary bodies were supposed to be the most helpless and harmless members of the government. Experience, however, soon showed in what way they were to become the most dangerous; that the insufficiency of the means provided for their removal gave them a freehold and irresponsibility in office; that their decisions . . . become law by precedent, sapping by little and little the foundations of the constitution, and working its change by construction In truth, man is not made to be trusted for life if secured against all liability to account."¹⁵

Jefferson's great concern, of course, was the preservation of individual liberty. He was opposed to oppression, whatever its source. The great danger to liberty is not simply government itself but concentrated and unrestrained government which can and will ride roughshod over the rights of individuals. "It is not by the consolidation

or concentration of powers," he wrote, "but by their distribution that good government is effected." He could be equally concerned, or nearly so, whether the concentration was wrought by the legislative, executive, or judicial branches. For example, Jefferson complained vigorously in the 1780s about the concentration of powers in the legislative branch of the Virginia government. "All the powers of government," he declared, "legislative, executive, and judiciary, result to the legislative body. The concentrating of these in the same hands is precisely the definition of despotic government. It will be no alleviation that these powers will be exercised by a plurality of hands and not by a single one. One hundred and seventy-three despots would surely be as oppressive as one" Nor was he in the least relieved that since the legislature was elected, it would be an "elective despotism," so to speak.¹⁶ What was wanted, he pointed out, was a balance of powers by which government would be restrained and limited and individuals would be free.

Even so, over the years Jefferson became ever more firmly convinced that the federal judiciary would be the instrument for concentrating power in the federal government and the reducing of the other branches to subordinate status. He may have been drawn to this conclusion by the long tenure of John Marshall as Chief Justice of the Supreme Court, by his dominance of that body, and by his tendency to interpret the Constitution in such a way as to subordinate the states and enhance the power of the federal government. Be that as it may, Jefferson saw clearly and correctly that the potential of the courts for undermining the Constitution and tipping the flow of power toward themselves was there. He was right that the courts were potentially irresponsible, that it was very difficult, if not impossible, to hold the Supreme Court to account for vagrant opinions. He was right, too, in fearing that the states would be the first to have their independence undermined on the way to the concentration of power. He was on the mark as well in detecting an institu-

tional flaw in the Constitution which gave lifelong tenure to federal judges.

Federal Supremacy

But if his pronouncements be taken as predictions, his timing was well off the mark, at least from our perspective. Actually, they were more like warnings and caution signs than predictions. In any case, it was well into the twentieth century, by my reckoning, before the concentration which he discerned as potentiality came to fruition. Granted, there was a major thrust toward the concentration of power in the Union government during the Civil War and Reconstruction. It was spearheaded by the executive, Abraham Lincoln, that is, and later taken over by Congress during the presidencies of Johnson and Grant. The courts figured hardly at all in this concentration of power. But the concentration did not last much past the end of Reconstruction. Neither Congress nor the Presidents nor the federal courts nor even the United States government was especially dominant over the next two decades or so. The states reasserted their roles and a kind of balance of power was restored to the Union.

The next full-fledged onslaught of the concentration of power came in the 1930s, though it was prefigured by developments just before and during World War I. The Seventeenth Amendment, adopted in 1913, stripped the state governments of their most effective restraining influence upon the federal government. The Sixteenth Amendment, ratified in 1913, and the Federal Reserve Act, passed shortly afterward, prepared the way for the federal government to control the money and banking system and gather the wealth with which to consolidate its dominance. The more or less permanent concentration of power in the federal government began in the 1930s.

Again, however, it was not the federal courts which led the way in thrusting aside the constitutional restraints on the consolidation of power in the 1930s. On the contrary, the courts, and the Supreme Court in particular, carried on a major rearguard

campaign to preserve the integrity of the Constitution, down to 1938, at which point a reconstituted Court knuckled under but still did not take the lead in undermining the Constitution. It was the executive branch, led and prodded by Franklin D. Roosevelt, which pushed to consolidate and concentrate power during the 1930s. Congress became a pliant instrument of the executive branch, forgoing its responsibilities to observe and protect the Constitution, and passing whatever legislation the President thought fit to suggest. Congress did begin to stiffen its spine near the end of the decade, but its efforts were too little and too late.

All this is not to say that Jefferson erred about the consolidating potential of the federal courts. His timing was off but his analysis was right. Under the benevolent domination of Chief Justice Earl Warren, the Supreme Court took the lead in the 1950s and 1960s, and during those two decades it outconsolidated and outconcentrated the executive and legislative concentrators and consolidators of earlier decades. The high court planted its foot on the neck of the state and local governments, took away their independence of action, compelled them to perform their functions under its directives, and removed them entirely as an obstacle to federal power.

The substantive obstacles to the exercise of federal power, and especially by the Supreme Court, had been so far ignored, evaded, and misconstrued by the 1970s that the Constitution no longer served as a restraint on government. Instead, it had been largely reconstrued as the fount of a cornucopia of benefits bestowed upon a dependent people by a government ravenous for the wealth of America and bent upon directing the course of the lives of Americans. Is this oppression? Jefferson would have said so, for he said that concentrated power is by definition oppression. But Jefferson spoke in terms of essences, not existences, of reason, not feeling, and many Americans will not recognize oppression until they feel it. That, too, may come; for many, it already has.

The strange thing is that even though this

vast consolidation and concentration of power has taken place in the twentieth century, the Constitution has been little changed since 1791, and then mainly by the Fourteenth, Sixteenth, and Seventeenth Amendments, and these were only made adjuncts of the concentration, they did not mandate it. The Constitution is still there to be recovered, if we but knew how and had the will to do it.

Since Jefferson thought that the federal courts posed the main threat to the Constitution, his suggestion for amending it addressed only that point. Jefferson proposed that judges have their tenure limited to a fixed term. He said, "Let the future appointments of judges be for four or six years, and renewable by the President and Senate. This will bring their conduct, at regular periods, under revision and probation, and may keep them in equipoise between the governments [state and federal]."¹⁷

A New Check

My own studies of how power became concentrated in the United States (to be published in the forthcoming book, *Basic American Government*) lead me to the conclusion that Jefferson's proposal, which has never been adopted, falls far short of what is now necessary to restore the Constitution. In fact, he was not addressing that problem, for it retained its full vigor during his lifetime. He did foresee the corruption of the executive and legislative branches when the Constitution was undermined. That has indeed taken place. The legislative and executive branches no longer consider it any part of their duty to determine the constitutionality of their acts. They no longer consider much except how far they can go before the courts call a halt. As for the courts, they are more apt to consult the public temper than the Constitution.

It seems to me that in our present condi-

tion, the only means of getting judges, legislators, and executives to consult the actual provisions of the Constitution and to obey the oaths they take to observe its bounds and protect it is to adopt sanctions against its violation or evasion. In sum, it should be made a crime punishable by removal from office for any government officer, including members of Congress, to participate affirmatively in any act not authorized by or in violation of the Constitution. Trial for those accused should be in United States District Courts before a jury charged with determining whether a violation has taken place and a judge empowered to remove them from office. This proposal is more fully developed in my forthcoming book, though even that could benefit by fuller treatment.

At any rate, Thomas Jefferson's insights are still capable of lighting a fire on the 250th anniversary of his birth. They shed a light on the Constitution, our system of government, and remind us that it was adopted to protect individual liberty from oppression, not to justify and sanction it by obfuscatory constructions. □

1. Richard Hofstadter, *The American Political Tradition* (New York: Vintage Books, 1955), pp. 23-24.
2. This is the title of a book in which Jefferson is included.
3. Edward Dumbauld, ed., *The Political Writings of Thomas Jefferson* (New York: The Liberal Arts Press, 1955), p. 55.
4. Dumbauld, p. 76.
5. Dumbauld, p. 55.
6. Dumbauld, p. 138.
7. Frank Irwin, ed., *Letters of Thomas Jefferson* (Tilton, N.H.: Sanbornton Bridge Press, 1975), p. 215.
8. Irwin, p. 40.
9. Dumbauld, p. 153.
10. Dumbauld, pp. 154-55.
11. Adrienne Koch and William Peden, ed., *The Life and Selected Writings of Thomas Jefferson* (New York: Modern Library, 1944), pp. 660-61.
12. Dumbauld, p. 148.
13. Irwin, pp. 215-16.
14. Thomas Jefferson, "The Constitution—Endangered by the Federal Judiciary," *Foundations of Liberty*, James R. Patrick, ed., vol. I (1988), p. 26.
15. Jefferson, p. 27.
16. Quoted in Hofstadter, p. 29.
17. Allen Ellery Burgh, ed., *The Writings of Thomas Jefferson*, vol. XV (Washington: Jefferson Memorial Association, 1907), p. 331.

DO STATE AND LOCAL FISCAL CHOICES MATTER?

by Stephen E. Lile

States differ dramatically in overall levels of taxation and spending, and in the relative use of income, sales, property, and other tax types. They also differ in population and economic growth rates. Whether or not fiscal choices affect economic outcomes is of interest, particularly during a period of slow economic growth such as the present.

Milton Friedman (*Newsweek*, July 12, 1976, p. 58) commented on a study¹ of fiscal differences between Vermont and New Hampshire and observed that "Vermont spends more; Vermont relies more on the state relative to the local community, and Vermont has little to show in return." This note extends Friedman's fiscal comparisons to three pairs of neighboring states—Kentucky-Tennessee, New Hampshire-Vermont, and Oregon-Washington—in an effort to see if there is any systematic relationship between fiscal choices, in particular taxation, and economic vitality as measured by income per capita and net migration.

The chart on the following page shows the latest data available on expenditures, taxation, net migration, per capita income, and growth in per capita income for three pairs of adjacent states. States with low taxes are shown to outperform their high-tax neighbors in terms of income and immigration.

Stephen Lile is a professor of economics at Western Kentucky University and a past president of the Kentucky Economic Association.

Tennessee, for example, collects about 13 percent less than Kentucky in state-local taxes relative to state personal income (\$94 vs. \$108). Tennessee's 1990 per capita income is about 6 percent higher. Moreover, because Tennessee and Kentucky had the same per capita income in 1960, Tennessee income growth over the past 30 years is also about 6 percent greater than Kentucky's.

An obvious indicator of a state's economic vitality is whether people are on net moving into or leaving that state. In each of these pairs of states, the low-tax state attracted more people as compared to its high-tax neighbor. Kentucky actually lost 110,000 people during the 1980s, while Tennessee gained 124,000.

Does the correlation between taxation and income/migration demonstrate that low taxes cause growth? No, but taxes influence location decisions of people and businesses and business decisions to expand, if non-tax factors are roughly equal. Non-tax factors are most likely to be similar in the case of neighboring states.

An example based on family tax burdens² illustrates why tax burdens can affect growth. The 1990 tax burden on a Memphis family (\$2,591) with \$45,000 adjusted gross income is about \$1,800 less than the tax burden on a family with the same income living and working in Louisville (\$4,407). This implies that, other things the same, the Tennessee employer has a clear advantage

STATE	State-Local Direct General Expenditure Per Capita 1990	State-Local Education Expenditure Per Capita 1990	State-Local Tax Collections Per \$1,000 of State Income 1990			Broad- Based Income Tax	State-Local Family Tax Burden*	Net Migration 1980-90	Welfare Spending Per Capita 1990	Personal Income Per Capita 1990	Growth In Personal Income Per Capita 1960-90
Kentucky	\$2,607	\$ 917	\$108	Yes	\$4,407	-110,000	\$389	\$15,001	\$13,458		
Tennessee	2,605	884	94	No	2,591	+124,000	284	15,866	14,321		
New Hampshire	2,963	1,099	83	No	2,121	+118,000	333	20,827	18,753		
Vermont	3,600	1,511	122	Yes	2,885	+ 23,000	472	17,511	15,652		
Oregon	3,397	1,298	122	Yes	5,465	+ 32,000	337	17,196	14,937		
Washington	3,410	1,275	123	No	1,996	+293,000	427	18,775	16,458		

Source: U.S. Department of Commerce, *Government Finance*, 1990-91; *Current Population Reports*, Series P-25, No. 1058; *Survey of Current Business*, August 1991; Lile and Philhours, *Interstate Comparisons of Family Tax Burdens* for 1990.

*The sum of state-local income, sales, and homeowner property tax. Assumes residence and employment in largest city of each state, a house value of \$90,000 a family of size four with two wage-earners with combined adjusted gross income of \$45,000. For methodology see Stephen E. Lile and Joel E. Philhours, *Interstate Comparisons of Family Tax Burdens* in 1990, Institute for Economic Development and Public Service, Western Kentucky University, 1991.

over the Kentucky employer because he can pay labor less and still be competitive on an after-tax basis. The migration data for Kentucky (-110,000) and Tennessee (+124,000) suggest that a portion of the benefit from Tennessee's lower tax burden accrued to labor in the form of greater employment opportunities and/or greater after-tax earnings. The differences in family tax burden between Portland (\$5,465) and Seattle (\$1,996) and between Burlington (\$2,885) and Manchester (\$2,121) suggest that a similar argument could be used to explain in part why immigration and income growth in Washington and New Hampshire exceed that in Oregon and Vermont, respectively.

No doubt many variables (some historical) account for why one state enjoys greater prosperity relative to another. The influence of fiscal choices, and taxation choices in

particular, is likely to be greatest in the case of neighboring states because other factors such as climate and location are similar. Policy-makers in high tax states, who might be inclined to dismiss supply-side arguments as they apply to the national economy, might wish to reconsider the role that fiscal choices play at the state-local level where the opportunity for business and families to "vote with their feet" is greater. Both theory and experience seem to suggest that a state's fiscal choices do matter. □

1. Colin D. Campbell and Rosemary G. Campbell, *A Comparative Study of the Fiscal Systems of New Hampshire and Vermont, 1940-1974*, The Wheelabrator Foundation, Inc., 1976.

2. Stephen E. Lile and Joel E. Philhours, *Interstate Comparisons of Family Tax Burdens* for 1990, Institute for Economic Development and Public Service, Western Kentucky University, 1991.

What Is Seen and What Is Not Seen

Have you ever heard anyone say: "Taxes are the best investment; they are a life-giving dew. See how many families they keep alive, and follow in imagination their indirect effects on industry; they are infinite, as extensive as life itself"?

The advantages that government officials enjoy in drawing their salaries are *what is seen*. The benefits that result for their suppliers are also *what is seen*. They are right under your nose.

But the disadvantage that the taxpayers try to free themselves from is *what is not seen*, and the distress that results from it for the merchants who supply them is *something further that is not seen*, although it should stand out plainly enough to be seen intellectually.

When a government official spends on his own behalf one hundred *sous* more, this implies that a taxpayer spends on his own behalf one hundred *sous* the less. But the spending of the government official *is seen*, because it is done; while that of the taxpayer *is not seen*, because—alas!—he is prevented from doing it.

IDEAS
ON
LIBERTY



—FREDERIC BASTIAT

THE COSTS OF TAX AND SPEND

by John D. McGinnis

In 1992, Americans worked from January 1 to May 5 just to pay their taxes. According to the Tax Foundation, this portion of the calendar year represents the portion of their total income Americans, on average, pay in taxes. But the whole truth about taxes and spending, however, is much worse than this.

The Arithmetic

Tax Freedom Day is calculated by adding up all the taxes paid (income taxes, sales taxes, property taxes, corporate taxes, social security taxes, user-fees, and so on) and dividing by the total income of individuals. This result, approximately 34 percent, is then applied to the calendar year and becomes that portion of the year in which individuals work for government. The remainder of the year after Tax Freedom Day is the time individuals work for themselves. As simple and straightforward as this calculation is, and as intuitively appealing as it is, it significantly understates the amount of government in our lives and consequently overstates the amount of freedom we have.

To begin with, the calculation does not include regulatory requirements, compliance costs, the liabilities of government-

sponsored enterprises, and inflation. Regulations are, of course, one of the government's ways of making citizens incur costs without being taxed directly, but the effect is the same as taxation—earnings are used to enforce government policies. Compliance costs are those that individuals incur in filling out tax forms, consulting tax accountants, maintaining records, keeping up with the tax code (is it possible?), or anything else required in following governmental mandates. The tax-accounting industry absorbs many billions of dollars—this is only part of the compliance costs that fall on the shoulders of citizens.

Inflation, too, is a tax. It is the national government's way of paying for projects without explicitly taxing its citizens, but it is no less a burden. Inflation is the result of government creating money. The chief impetus for the national government to inflate is its desire to spend more than it takes in. (A second impetus is the fact that inflation helps borrowers at the expense of lenders. The public sector, of course, is a net borrower while the private sector is a net lender.) When the government pays for projects by creating more money, the result is a decrease in the purchasing power of individuals. The cost of this government-created inflation in terms of decreased purchasing power can be staggering. An inflation rate of just 3 percent (considered tame by recent standards) means an annual de-

John D. McGinnis is a doctoral student in finance at the Pennsylvania State University.

crease in the purchasing power of private Americans of \$180 billion. This could represent as many as ten additional days of work for all Americans to cover the government's hunger for spending.

The Tax Freedom Day calculation also does not include borrowing by governments at the federal, state, and local levels. Not only does the government spend all income earned up until May 5, but it continues to spend more by increasing the liabilities of its citizens. Some might argue that the incurred liabilities are offset by the assets purchased with the borrowing, but this is no less so with the taxes we pay. Government borrowing is every bit an infringement on our economic freedom as taxation. If it weren't, why wouldn't we finance all of government by perpetual debt and remain forever free? An important lesson of finance applies here: How we finance expenditures, whether corporate projects or government programs, is much less important than the choice of those expenditures. When government borrows our money or takes it directly through taxes or indirectly in ways mentioned above, the net effect is the same: The government, not individuals, decides how earnings are spent. This diminishes freedom.

So how do we add all this up? How much of the people's earnings is government taking? Milton Friedman has suggested one way to get an estimate: Begin by adding up all the expenditures of government at the federal, state and local levels. In the current fiscal year, this is about 47 percent of gross domestic product, which means that 47 percent of what the average American earns is going directly to the government. Now add in regulatory costs and compliance costs as well as off-budget items such as expenditures for federal agencies. I have no accurate way of estimating these, but totaled with direct taxes it becomes apparent that *the average American is working more than half of the year for government and less than half of the year for himself*. Cato the Elder was right—"A king is an animal that lives on human flesh."¹

The Consequences

The costs of such an onerous tax burden are less obvious, yet no less severe and exacting, than one might think. The national debt and the budget deficit get attention as causes of impending economic doom. The real problem is not debt-financing of government enterprise, but government enterprise itself. Even if the government had no debt, there could be great costs to its operation. We would, for instance, have a federal government with expenditures of 30 percent of gross domestic product, and if tax collections equaled 30 percent of gross domestic product there would be no debt. Nevertheless, the opportunity cost of such large expenditures by government is enormous. As Adam Smith observed: "The industry of the country, therefore, is thus turned away from a more, to a less advantageous employment, and the exchangeable value of its annual produce, instead of being increased, according to the intention of the lawgiver, must necessarily be diminished by every such regulation."²

It is often commented that deficit spending crowds out investment by the private sector. This is true enough: Funds lent to the government mean fewer lendable funds for the private sector. However, it is no less true that money spent by the government (whether by borrowing or through tax revenues or printing more money) means less spending and investment by the private sector. Hence, all government spending, however financed, crowds out private enterprise. It also sacrifices market decisions and all the knowledge that the market brings to bear, in favor of decisions made by politicians, whose motivations may be questionable, and whose wisdom is necessarily inferior to the market. Again, Adam Smith says it best: "Great nations are never impoverished by private, though they sometimes are by public prodigality and misconduct."³

The issue then is not how we finance government, but the size of government. The larger the activity of government, the greater the cost to society, regardless of the

amount of government debt. A society which aspires to be free surely must admit that control of over half of its product by government is a serious problem. How much liberty exists in such a situation? How much of our lives is spent complying with the dictates of the IRS and other governmental bureaucracies? How much of our lives is taken directly from us when we are allowed to keep only half of what we produce? How much is lost for the present and the future by the usurpation of our personal sovereignty by government?

It has been claimed that there is a cultural war going on in America. In truth, that battle is part of a larger conflict, the war of public sector versus private sector. Currently, the public sector appears to be winning. It is growing much faster than the private sector and its growth insidiously retards private enterprise. The situation is worse than Tax Freedom Day implies and we need to be aware of this. We need also to be aware of the power of freedom. As Adam Smith said:

The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security.⁴

An economic environment where freedom is being supplanted by political control is one with the highest opportunity cost. That is what makes the fight for freedom so important. □

1. Quoted by Plutarch in *Makers of Rome* (New York: Penguin Books, 1965), p. 128.

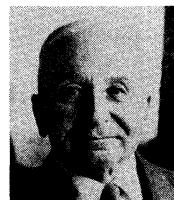
2. Adam Smith, *The Wealth of Nations* (The University of Chicago Press, 1976), edited by Edwin Cannan, Vol. 1, p. 479.

3. Smith, Vol. 1, p. 363.

4. Smith, Vol. 2, pp. 49-50.

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BOOKS

Adventures in Porkland: How Washington Wastes Your Money and Why They Won't Stop

by Brian Kelly

Villard Books • 1992 • 272 pages • \$23.00

Reviewed by John Attarian

This concise, angry, intensely readable result of a year's investigation of Congress should rouse every taxpayer's rage. A \$19 million study of cow flatulence; \$80 million for Steamtown, USA (a national railroad museum in Scranton, Pennsylvania); \$2 billion each for two useless waterways in Alabama and Louisiana—Brian Kelly's catalog of "pork" (federal money spent by Representatives and Senators for their own constituents) is outrageous. So is the way legislators sneak these boondoggles into appropriations bills, and squash attempts by "porkbusters" to stop it.

Since the House of Representatives was designed to be closely attentive, thanks to two-year terms, to the interests of voters in Congressional districts, the possibility for pork was built into the system. As America grew, so did possibilities for pork, which is now running hog wild. The 1987 highway bill had 152 pork projects costing \$1.3 billion; 1992 highway spending included 480 projects costing \$5.4 billion. Kelly puts the 1992 budget's total pork at \$97 billion.

Pork transcends party and ideology; free-spending Democrats like Senator Robert Byrd (who brought West Virginia \$2 billion in pork in two years) are matched by Republicans like Senator Alphonse D'Amato (known as "Senator Pothole" for getting public works pork for New York) and Representative Joe ("Steamtown") McDade. "Fiscally conservative" Congressmen both

accommodate and emulate porkbarreling colleagues.

The President has power to fight pork, but Kelly reveals George Bush as a weakling not above his own election-year porkbarreling. Former Budget Director Richard Darman comes off even worse: a Machiavellian pragmatist who greased the 1990 budget pact by horsetrading with Byrd, swapping pork for "spending caps."

Congressional greed bears much blame for pork, but Kelly rightly fingers the public as the real culprit. Congressmen bring pork home because voters want government to care for them at others' expense, and re-elect politicians who do it.

Is pork bad? "It depends on what you think the federal government is supposed to do for you and everyone else in the country Evaluating pork requires you to ask some fundamental questions: Should the federal government *really* be doing this? . . . Just because a project or program sounds like a good idea, can we *afford* to do it? Just because it doesn't seem to cost me anything, is it *really* free?"

Kelly suggests voting porkbarreling incumbents out (good idea); a balanced-budget amendment; a line-item veto; term limits; more vigorous Presidential leadership; a re-thinking of government's proper role; and a nationwide decision to forsake pork (my favorite).

Adventures in Porkland reveals a fatal flaw in the mixed economy: It is all too human for voters to want government to spend money on them, and politically sensible for politicians to do so, but the results are ruinous: a population addicted to hand-outs, a corrupt politics, an overspending legislature, and an economy enfeebled by the resultant debt burden. The only solution is to rout the paternalist philosophy of government, and *Adventures in Porkland* provides valuable ammunition for the fight. □

Dr. Attarian is a free-lance writer in Ann Arbor, Michigan and an Adjunct Scholar with the Midland, Michigan-based Mackinac Center for Public Policy.

Grand Theft and Petit Larceny, Property Rights in America

by Mark L. Pollot

Pacific Research Institute for Public Policy,
177 Post Street, San Francisco, CA 94108
1993 • 222 pages • \$21.95

Reviewed by Grant Thompson

For those who, like myself, are uninitiated in the intricacies and nuances of legal history, the language of the Fifth Amendment is straightforward: “nor shall private property be taken for public use, without just compensation.” Mark Pollot’s *Grand Theft and Petit Larceny* explains how courts gutted this seemingly explicit clause.

As an attorney in the Reagan White House, Pollot drew up an executive order that attempted to curb federal takings of private property. Although a discussion of his role might have been interesting, Pollot is too disciplined a writer to stray into politics.

Instead he limits himself to a thorough, if sometimes plodding, account of legal precedent and theory. Pollot defines a “taking” as interference with any portion of a property owner’s rights, and notes that constitutional history and common law support this view. Reaching back to Magna Carta, he discusses the rationale for property rights and demolishes the contemporary myth that they are somehow inferior to other rights.

Justice Potter Stewart wrote, “property doesn’t have rights, people have rights” Pollot shows that in the minds of the founders, property rights were, if anything, more fundamental than other rights. Without the ability to be secure in one’s person and possessions, all rights would be meaningless. Freedom of speech and religion, for example, mean little if the government can confiscate printing presses and churches.

The founders recognized this truism through hard experience. First under British rule and subsequently under the Articles of Confederation, Americans found themselves hounded by government interference at every turn. The founders scuttled the

Articles largely because state legislatures were blocking commerce, meddling in private contracts and succumbing to every sort of special interest. Yet today’s courts regularly accept such legislative mischief.

The judiciary justifies this abdication of its responsibility with a bewildering array of sophistries. Modern court rulings often border on self-parody. For example, the courts have justified uncompensated takings because:

- the owner knew when he purchased property that the government might, in the future, ruin it through regulation;
- a builder was already compensated for harsh regulations because the government had “allowed” him to build in the first place;
- the builder was already compensated because the government granted him the privilege of using other properties as he wished;
- enforcing the Constitution would be too expensive.

Although Pollot limits his discussion to takings, he provides insights into other issues as well. For example, in a discussion of the founders’ suspicion of legislatures, Pollot shares the following quote from James Madison: “If this spirit [that nourishes freedom] shall ever be so far debased as to tolerate a law not obligatory on the legislature, as well as on the people, the people will be prepared to accept everything but liberty.” As Pollot notes, this is an especially telling statement considering that today’s Congress exempts itself from dozens of laws, such as the Civil Rights Act of 1964 and the Occupational Safety and Health Act.

Pollot carefully dismantles the argument that paying compensation for takings would prevent vital regulations. First, if a regulation is truly vital, then the public can afford to shoulder its cost. Either a regulation’s benefit is greater than its cost, in which case society reaps a profit even after paying compensation; or, a regulation’s benefit is not greater than its cost, in which case the regulation should be discarded.

Second, as Pollot points out, courts must rule on what’s constitutional, not what’s

convenient. Trial by jury is costly; should this constitutional safeguard also be discarded?

Pollot pulls a quote from the constitutional convention to make a third point:

It is natural for men, who wish to hasten the adoption of a measure, to tell us, now is the crisis—now is the critical moment which must be seized, or all will be lost: and to shut the door against free enquiry.

. . . This has been the custom of tyrants and their dependents in all ages.

In today's atmosphere of environmental hysteria, this admonition is particularly valuable.

Pollot offers a four-pronged strategy to restore property rights: education, participation in the legislative process, participation in the administrative process, and litigation. As a tactic for restoring property rights, litigation presents a disproportionate share of both risk and potential. Recognizing this, Pollot sets aside a separate chapter to discuss the limits and possibilities of litigation.

Unfortunately, Pollot's stiff prose sometimes obscures the absurdity of modern court rulings. In *Berman v. Parker*, for example, the court refused to consider some issues because to do so "would result in courts deciding what is and what is not a governmental function." Reflecting on this staggering assertion, Pollot intones, "the difficulty with this statement is that determining such functions is precisely the role of the courts under the provisions of the Constitution and the Bill of Rights."

Pollot's restraint adds credibility to his work, but tends to cramp his writing style. In the introduction, Pollot confides that "the pleasure I ordinarily derive from writing . . . was singularly lacking when I wrote this book," and adds that writing "about the daily violation of civil rights" is burdensome.

Nevertheless, Pollot's book is well constructed and packed with information. It concludes with an afterword that makes sense of several recent Supreme Court cases. Those who wade through this

sobering and useful work will be glad they did. □

Grant Thompson is an intern at Reason magazine under an Institute for Humane Studies fellowship.

Official Lies: How Washington Misleads Us

by James T. Bennett and Thomas J. DiLorenzo

Groom Books, 1800 Diagonal Road, Suite 600, Alexandria, VA 22314 • 1992 • 330 pages \$19.95

Reviewed by William H. Peterson

"**A**n honest politician is a contradiction in terms," Frank Chodorov said repeatedly. Chodorov was sharp on the devious ways that governments use to shape public opinion, to win friends and influence people on behalf of the state machine, to set back the cause of human liberty.

This sharpness is the purport of Professors Bennett of George Mason University and DiLorenzo of Loyola College in Baltimore in their hard-hitting and most worthwhile book. They contend that the federal government, no matter which party is in power, incessantly manipulates opinion and subverts, if sometimes inadvertently, both truth and democracy.

Such subversion is anything but benign. The Old Testament warns us: "Put not thy trust in princes." The two professor-authors observe how Alexis de Tocqueville in *Democracy in America* was concerned about the power of government to inculcate a "new servitude" in the people. Wrote Tocqueville in 1835, as quoted here: "Such a power does not destroy, but it prevents existence; it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to little better than a flock of timid and industrious animals, of which the government is the shepherd."

Similarly Professors Bennett and

DiLorenzo note how Hayek argued that extensive government controls can produce "a psychological change, an alteration in the character of the people." Nobody can seriously argue that controls in America from Social Security to antitrust, from credit expansion to minimum wages, from affirmative action to so-called environmental protection, and so on are not extensive. It follows that government propaganda on behalf of these controls serves to undermine individual freedom and that citizens need to read books such as *Official Lies* to alert them to the danger.

What lies? Take the one that governments can dispel ignorance and educate people, including the young. The authors wonder about this contention in the face of the fact that the "free" public school in America is essentially a monopoly financed by compulsory taxation and secured by compulsory-attendance laws. Others laws reinforce that monopoly. The authors note, for example, that a Texas state law states that textbooks "shall not contain certain material which serves to undermine authority."

Professors Bennett and DiLorenzo see that virtually all textbooks in civics or American government throughout the land clothe government in almost saintly garb. Its servants are selfless, public-spirited bureaucrats and politicians whose only aim in life is to serve mankind in general and America in particular. They cite the widely used *American Government* by Mary Turner, Kenneth Switzer, and Charlotte Redden, who find Congress an "effective" branch of government whose hallmarks are diligence and sobriety.

In like manner Professors Bennett and DiLorenzo take on the green lobby in and out of the government, a lobby whose daily propaganda hammers out the message that the sky is falling, that ozone depletion, global warming, acid rain, overpopulation, toxic wastes, and the like will soon wipe out the human race apart from the spotted owl. They analyze some of the misstatements and misconceptions in reports like the Club of Rome's *Limits to Growth* and the Carter Administration's *Global 2000*. Employing

some of the analysis of economist Julian Simon, the authors say the nightmarish projections of *Global 2000*, now only seven years away, do not bear the stamp of objective science but are instead "the prejudiced opinions or even the hunches of a small number of government employees."

James Bennett and Thomas DiLorenzo deserve credit for cutting through the steady fog of misinformation and disinformation emanating from the nation's capital. Their readers will profit from their lively book on official deception. □

William H. Peterson, an adjunct scholar at the Heritage Foundation, holds the Lundy Chair of Business Philosophy at Campbell University, Buies Creek, North Carolina.

Patient Power: Solving America's Health Care Crisis

by John C. Goodman and Gerald L. Musgrave

CATO Institute, 224 Second Street, S.E., Washington, D.C. 20003 • 1992 • 672 pages
\$16.95 paper

Reviewed by Ross Korves

For the past 50 years, public policy on health care in this country has led to the concentration of power in the hands of bureaucracies, both public and private. Consumers pay directly for only about 20 percent of the cost of care. Governments pay directly for 40 percent of the care received. Of those people who have private health care plans, over 90 percent have employer-based plans where individuals have little say in the choice of plans. Medicare and state government regulations delineate in minute detail how health care providers are to render care. The Food and Drug Administration has complete control over which drugs are allowed on the market and what conditions can be treated. The health care delivery system looks much like

the failed centrally planned economies of the old Soviet Union and Eastern Europe.

Many serious students of health care policy have concluded that the only ingredients necessary to solve the current health care problems are more government regulations, more government spending and less consumer choice. Two health care policy experts have arrived at a sharply different conclusion. John C. Goodman and Gerald L. Musgrave have clearly laid out the arguments for allowing individuals to make decisions about financing and receiving health care. *Patient Power: Solving America's Health Care Crisis* is an important book to read to navigate the maze from our current system of bureaucratic power to a system based on patient power.

At 672 pages, only the most dedicated soul would attempt to read the entire book. The 21 chapters are written so that each covers a specific topic and can stand alone. The book provides good background for how the current system developed with chapters like "How the Cost-Plus System Evolved" and "National Health Insurance in Other Countries." The route out of our mess can only be understood by looking at how we got into it. Other chapters like "Moving Toward the Ideal: An Agenda for Change" and "Privatizing Medicare with Medical IRAs" deal with the needed changes.

The authors use the first sentence in the preface to define the message, "The thesis of this book is simple: If we want to solve the nation's health care crisis, we must apply the same common-sense principles to medical care that we apply to other goods and services." More than 650 pages later in the conclusion, they are still stressing the same point, "The assumptions of the advocates of greater government control are false. Self-interested behavior is a normal and natural characteristic of human beings. Socialism does not work in health care any better than it does in any other market."

In a normal market system the pursuit of self-interest results in the needs of others being met at the same time. In the government-regulated health care market, the outcome is much different. "The result is a

marketplace in which the pursuit of self-interest often does not solve problems, but creates them instead."

Goodman and Musgrave are not new to the health care policy debate. Goodman, president of the National Center for Policy Analysis in Dallas, Texas, has spent much of the past 20 years researching and writing about the failure of government-run health care plans and how markets could deal with health care delivery and financing problems. Over the past ten years, Goodman and Musgrave, the head of an economic consulting firm in Ann Arbor, Michigan, have collaborated on many studies that formed the basis for much of the book.

The key element of their reforms is equity in taxation by permitting all taxpayers to purchase a health care plan and have medical savings accounts to pay small medical bills out of pocket. "To give all people the same economic incentives to purchase health insurance, premiums paid by employers should be included in the gross wages of their employees, and all taxpayers should receive a tax credit equal to, say, 30 percent of the premium." The allowable health plan deduction or credit would be limited to a premium for no-frills, catastrophic health insurance.

The arguments for permitting auto assembly line workers and school teachers to control their health care decisions and financing are fairly easy to grasp. Goodman and Musgrave go beyond that by looking at how to privatize Medicare. They also propose to decentralize Medicaid, move the decision-making to the community level, and allow private charitable organizations to bid on providing services to low-income people.

Near the end of the book is a chapter on "The Politics of Medicine" which primarily describes the politics of medicine in countries that have government-run health care. For those readers who are not familiar with "public choice" economics, the first part of the chapter provides an excellent overview of why politicians from different parties often support the same public policies. Several additional readings are also suggested.

That chapter alone is worth the price of the book and has implications far beyond health care.

While Goodman and Musgrave have many proposals to reform health care policy, they never lose sight of the fact that markets are always evolving in ways that we cannot anticipate. "The most that politicians can do is change the rules of the game. Once the rules have been changed, the tedious process of replacing cost-plus institutions with market-based institutions can begin. But the process of change must itself be market-oriented—brought about by millions of people pursuing their own self-interest."

Patient Power is a powerful message that needs to be heard in the current policy debate on health care. □

Ross Korves is an economist with the American Farm Bureau Federation in Park Ridge, Illinois.

What Has Government Done to Our Health Care?

by Terree P. Wasley

CATO Institute, Washington, DC • 1992
163 pages • \$19.95 cloth; \$10.95 paper

Reviewed by Gerald Musgrave

Never before has so much relevant information and clear explanation of health economics been condensed into such a thin volume. If every Congressman were to read this book on a flight home, America would have much less to fear from the Clinton administration.

Ms. Wasley's references are a virtual "Who's Who" in market approaches to health care. She includes a sprinkling of the usual villains, but uses them as strawmen or foils for her analysis. The book faithfully condenses the analyses and approaches being developed and used by the new market-oriented health economists. Under the old approach, markets are to be manipulated. That conventional wisdom is to prescribe

1950s-style social engineering masked by 1990s-style politically correct rhetoric of "Global Budgets" and the oxymoron of "Managed Competition." After reading this book, one would certainly know that free market, deregulatory approaches to health care financing have merit.

The book contains the best synopsis of the history of twentieth-century health care. Not one in 100 health economists knows that World War II price and wage controls are an important cause of today's problems. To dampen the problem caused by wage controls, in 1942 the War Labor Board ruled that fringe benefits in the form of health insurance would not be considered inflationary, and thus not controlled. Enrollment in group hospital insurance grew from less than seven million to about 26 million from 1942 to 1945 and marginal income tax rates rose from about four percent to 23 percent. Employers could launder wages through insurance companies. That is, the normal health expenses we all have could then be consumed with pre-tax dollars at a saving of 23 percent. Today, with total marginal tax rates being over 50 percent (federal, Social Security, Medicare, and state), it is not surprising that most of us obtain health care via employer-purchased "insurance" rather than our own personal and portable coverage for catastrophic situations, and why we don't self-insure for small bills. Many other historical issues are covered, but the treatment of this one is superb.

The book covers the slippery slide to nationalized health care. It is an interesting and thought provoking analysis. Ms. Wasley's thumbnail sketches of foreign systems should give any thoughtful person hesitation about grafting an alien approach to an American culture.

A final section introduces what is called "Health Care Based on Consumer Choice." No one blames farmers for hunger, or carpenters for homelessness, and the author does not blame health care suppliers for the other-than-utopian treatment of illness. She presents the major free market approaches to health care financing such as medisave accounts. She also offers deregulation, in-

cluding the elimination of costly and wasteful mandates. For example, some states require that treatment by chiropractors and herbal healers, care for the "accidental" smoking of crack, and payment for items such as toupees be covered in all insurance policies.

If only one Senator understood and fought for the ideas in this book, there would be hope that Teddy Kennedy would be denied his lifetime dream of socialized medicine. If that happened, this book would become a modern classic. □

Dr. Musgrave is the President of Economics America, Inc., in Ann Arbor, Michigan, and the publisher of The Right Guide.

We Hold these Truths

by Lawrence Patton McDonald

The Larry McDonald Memorial Foundation,
P.O. Box 745, Marietta, Georgia 30061 • 170
pages • \$18.95, \$11.50 paperback

The first edition of this book appeared in 1976 as both a bicentennial tribute and reminder to the American people of their ideological origins; this revised edition was published in 1992. Its 21 chapters are an excellent introduction to the theory and history of American constitutional government.

Dr. Larry McDonald wrote the book while he was serving as a Congressman from Georgia, several years before he and 268 others on a South Korean jetliner were killed by the Soviet Air Force in 1983. This new edition contains the texts of both the Declaration of Independence (and its signers) and the Constitution (and its amendments), as well as two tributes offered at Congressman McDonald's memorial service.

Congressman McDonald's discussion of social security discloses both the strength of the man and the book:

For more than half a century, most leading politicians and other government

officials have lied to the people about social security insurance. Government sold the people on the idea that they were buying a good, cheap insurance policy which would be honestly administered by government. . . .

But the government program was never insurance. It laid payroll taxes aside in a trust fund of government debt—not as a reserve to pay long range liabilities, but as an emergency reserve to use in years when social security taxes fell below social security benefits. Private insurance operators doing that sort of thing would be prosecuted. . . .

Why would politicians lie to the people? Because social security has always been the mother lode of political ore for politicians to mine. For more than five decades they have been buying votes for themselves with promises to improve the social security system by increasing its benefits and allowing more people to participate. . . .

We Hold These Truths would make an excellent text for high school government classes or homeschoolers. —JR

The Right Guide: A Guide to Conservative and Right-of-Center Organizations

Edited by Wilcox, Shackman, and Naas

Economics America, Inc., 612 Church St.,
Ann Arbor, MI 48104 • 444 pages • \$74.95.

This is a useful encyclopedia of libertarian and conservative organizations. It is cross-referenced and indexed in a dozen different ways, and includes both U.S. and foreign organizations. The *Guide* is praised by Robert Hessen, William E. Simon, William A. Niskanen, and Julian Simon, among many others. It should be useful for libraries and public policy organizations that are interested in cooperating with other like-minded groups. —JR

THE FREEMAN

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MAY
1993
VOL. 43
NO. 5

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$25.00 or more receive a subscription to *The Freeman*. Additional copies of single issues of *The Freeman* are \$2.00. For foreign delivery, a donation of \$40.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available on microfilm and CD-ROM from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. A computer diskette containing the articles from this month's issue is available from FEE for \$10.00; specify either 3½" or 5¼" format.

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PERSPECTIVE

The NAFTA Analysis: Not Free Trade

Although touted as "free trade," the North American Free Trade Agreement (NAFTA) is anything but. "Free trade," by definition, is freedom from government in bartering and exchanging. Governments step aside and allow the peoples of their respective countries to exchange goods and services or associate with the peoples of other countries without any (or very little) government interference.

The NAFTA is over 1,700 pages long—741 pages for the treaty itself, 348 pages for annexes, and 619 pages for footnotes and explanations. It is difficult to see how 1,700 pages of government rules and regulations can free trade. By definition, free trade is the removal of government from the trading process, not its expansion.

Specific provisions of the treaty prove that it is the opposite of free trade. It sets up a "Free Trade Commission" and a new bureaucracy under this commission called the "Secretariat." This commission, composed of unelected officials from the participating countries, will interpret the treaty and impose its decisions on member nations. It also will resolve conflicts and enforce its decisions. This is not free trade, but an establishment and expansion of international bureaucracy over sovereign nations' trading policies.

True free trade would eliminate tariffs. The NAFTA not only keeps current tariffs in place during a fifteen-year "transition period," but also permits these tariffs to continue after this period "with the consent of the [nation] against whose good the action is taken." The NAFTA also allows government subsidies and import quotas to continue. The NAFTA will also gradually impose the strict environmental guidelines of the United States on the countries which signed the treaty.

If national leaders really wanted free trade, they could abolish unilaterally *any* barrier that hinders trade with other coun-

tries: tariffs, quotas, subsidies, regulations, licenses, passports—everything.

—JOE OGRINC

Medicare Rules

Look at it this way. How would you feel about *your* job if it were governed by Medicare rules? You might be paid or you might not, and you couldn't tell which before you did the work. In order to receive payment, you would have to fill out a complicated form at least once (often more than once). Quite often you would have to fight with a bureaucrat and answer insulting and threatening letters. The maximum rate of payment would usually be substantially less than you could make by doing something else, for example, treating a younger person. And if you made a mistake in your paperwork, or offended a bureaucrat by acting disrespectful, or did something that was declared unnecessary after the fact, you might have to give all the money back, plus \$2,000 for each mistake. Worse, you might even be forced out of your occupation altogether.

Would you continue in a job like this?

More doctors are saying that to accept a check from Medicare, you'd have to be crazy.

—JANE M. ORIENT, M.D.

National Service

Some years ago Germany enacted a "Law for National Labor Service" that required one year of service for every youth between the ages of 18 and 29. Like the current American proposals, the service was part military and part civilian. The plan was

initially voluntary, but was made mandatory after two years.

The proponents of the German national service law promised that all work "undertaken by the Labor Service may only be supplementary, i.e., work which would not be undertaken in the ordinary way by private enterprise." Similar promises are made by contemporary American supporters of national service.

The German plan also praised collectivism and sharply criticized individualism and the market system. It advocated that young people be made to perform "service rendered to the German nation," and its overall purpose was "to lift men out of economic interest, out of acquisitiveness, to free them from materialism, from egoism"

The Hitler Youth were institutionalized by the "Law for National Labor Service," which operated under the premise that "the child is the mother's contribution to the state." This was the ultimate in national socialism: the nationalization of people.

This is not to suggest that the American supporters of national service are fascists or "national socialists," but to underscore what a tremendous threat to individual liberty such a program entails. Current American proposals may not sound too threatening since they are supposedly voluntary. But the Nazi program also was voluntary when it began, and, as mentioned above, there already are many powerful political supporters of mandatory national service in the United States. For these reasons, national service could pose one of the greatest threats to freedom in the coming decade.

—THOMAS J. DiLORENZO

MEXICO: MYTHS AND REALITY

by Christopher Whalen

Mexico is widely recognized as one of the great economic success stories of the 1990s. Under the leadership of President Carlos Salinas de Gortari, the country has moved from a decade of crisis and internal political turmoil following the 1982 debt default to rank among the world's most attractive emerging markets. Billions of dollars in new foreign money have been invested as hundreds of state-owned companies have been sold; tariffs have been dramatically reduced or eliminated entirely; and the economy has been opened to foreign investment, reversing decades of protection for what was once a largely socialized economy.

Despite the appearance of success in material terms, in many respects Mexico in 1993 remains remarkably unchanged. Even with the economic opening engineered by Salinas, Mexico still boasts one of the most skewed distributions of income and wealth in the world, according to the World Bank. Economic opportunity remains limited to the politically powerful, so that fewer than 30 industrial groups account for more than half of annual domestic product.

Mexico also ranks among the few societies in the Western hemisphere that refuses to move toward multi-party democracy. The reluctance of Mexico to renovate its social system as it attempts to modernize economically is attributable to the longevity and

flexibility of one of this century's oldest single-party political systems. Peruvian author Mario Vargas Llosa said on Mexican television early in the Salinas term: "The perfect dictatorship is not Communism, not the Soviet Union, not Cuba, but Mexico, because it is a camouflaged dictatorship. It may not seem to be a dictatorship, but has all the characteristics of dictatorship: the perpetuation, not of one person, but of an irremovable party, a party that allows sufficient space for criticism, provided such criticism serves to maintain the appearance of a democratic party, but which suppresses by all means, including the worst, whatever criticism may threaten its perpetuation in power." He hurriedly left the country immediately after making the statement.¹

Despite the positive image conveyed abroad by official propaganda, Mexico is a mafia state; a poor, developing nation ruled by a corrupt political elite that denies its citizens the most basic rights and has saddled the nation with tens of billions of dollars in foreign debt. Mexicans lack civil liberties that Americans take for granted: freedom to speak without fear, freedom to select political representatives and labor leaders, due process and redress of grievances, and most important, freedom to live or build a private business without threat of extortion, intimidation, or even murder by police and other government officials.

It is no coincidence that the rule of Carlos Salinas has been characterized as neo-Porfirismo, a direct allusion to the 31-year

Christopher Whalen, a Washington political and financial consultant, is the editor of The Mexico Report.

dictatorship of Porfirio Díaz, whose rule preceded the bloody 1910–1917 revolution and civil war in Mexico. “Democracy is a good principle, but its practice is only possible for those countries that have progressed [economically],” Díaz told a reporter on one occasion. In a similar vein, Salinas told *Newsweek* in 1990: “Reforms [economic and political] progress at different rates, but economic reform is the priority.”²

Mexican writers and political organizers grimly refer to murder as “the ultimate form of censorship.” Over the last three years, 28 journalists and literally hundreds of other citizens have been killed, injured, or wrongly jailed. Generally these deaths have occurred because of a conflict with the country’s ruling party, the Institutional Revolutionary Party (PRI), an organization that holds elections, but controls the results with officially sanctioned fraud and pervasive dominance over the media. It is important to mention, however, that not all journalists murdered in Mexico have been killed because of political machinations. Many operate as both victims of official intimidation and victimizers, using powerful positions and the weakness of Mexican legal structures to obtain payments and special favors.³ But in general, government influence over the media is pervasive and is actively used as a means of social governance.

Money is also an instrument of authoritarian control. The PRI-dominated public works program known as “Solidarity” will spend almost \$3 billion this year distributing “grass roots” social spending in areas of opposition strength. Overall, the ruling party will expend an estimated \$800 million in the 1994 presidential election, compared with a little over \$100 million for all U.S. presidential campaigns in 1992. Buying votes through public works spending while government economic policies force real wages to decline below the 50 percent loss experienced between 1982 and 1989 is hardly a democratic formulation.

Like the peoples of Eastern Europe, Mexicans take promises of economic improvement to imply political opening as well.

Despite government controls on political expression and the media, Mexicans increasingly have access to American television and other information media; they see that their cousins north of the Rio Grande live in relative freedom. But when they turn off their television sets, Mexicans still live in the most oppressive, regimented society in the hemisphere outside of Fidel Castro’s island prison.

The resignation late in 1992 of the fraudulently elected governor of the state of Michoacán, Eduardo Villaseñor, is but the latest indication that profound changes already are underway. His removal came after months of protests and marks the third time in 12 months that the PRI was forced to admit that a race was tainted. And yet while Mexico’s people are on the move, the Salinas government remains recalcitrant and unwilling to move toward political pluralism.

Americans are mostly unaware of the blooming civic awareness movement in Mexico, yet this quiet struggle for democracy involves no less a confrontation than has occurred in East Germany or Poland. Mexicans vie against a one-man regime that enjoys the support of foreign bankers, business leaders, and the U.S. government. “He is the master of all bosses. No bosses exist in Mexico without the consent and power of the President,” Adolfo Aguilar Zinser said. “This is a pyramidal system by which labor union leaders, governors, and local bosses are all the administrators of a landed power which ultimately belongs to the President.”⁴

Fighting Corruption With Corruption

Because Mexico’s judiciary and legislature are dominated by the president and regional governors, political opponents frequently find themselves accused falsely of involvement in drug trafficking or subject to arbitrary confiscation of property for alleged “tax evasion.” An extreme example of how the PRI uses legal mechanisms to punish political opponents is the case of Joaquín Hernandez “La Quina” Galicia, the former

head of the Mexican Petroleum Workers union who was arrested as part of an "anti-corruption" effort shortly after Salinas took power.

The fact that the Petroleum Workers union chieftain was corrupt is indisputable, but La Quina's arrest in 1989 for murder and weapons possession actually was a sham manufactured by Mexican police. His subsequent conviction was an act of political revenge ordered by Salinas, not the bold stroke to fight corruption described in credulous foreign press reports. The true goal was to restore discipline among the recalcitrant oil workers, who had bankrolled Cuauhtemoc Cárdenas' successful but stolen presidential race a year before.⁵

In reality, Mexican police transported the frozen body of La Quina's alleged victim by airplane to stage the phony photographs necessary to create "evidence" for the prosecution. But such techniques are hardly new. Following the torture murder of American DEA agent Enrique Camarena in 1985, police from Jalisco state allied with the PRI took the dead U.S. drug agent's body to then-governor Cárdenas' home state of Michoacán in an attempt to blame the killing on the ambitious and popular left-wing leader.

Yet true acts of corruption routinely go unpunished. Senior officials of Petróleos Mexicanos (Pemex), the oil monopoly, recently were removed because of allegations of "massive fraud," but no prosecutions resulted. Jorge Ruiz Ascencio, Executive Coordinator of Primary Production, was reportedly purged following an investigation that uncovered a bribery scheme totaling several hundred million dollars. The Mexican attorney general's office reportedly has sufficient evidence to prosecute Ascencio, but Pemex chief Francisco Rojas is blocking legal action to avoid further negative publicity following the tragic Guadalajara gas explosion. Thus La Quina sits in prison for political crimes, but Ascencio and other senior Pemex officials enrich themselves with impunity.

Pemex officials may not fear the law, but poor Mexicans hurt or injured by the Guadalajara disaster are prevented from seeking

compensation by the country's byzantine legal system. Indeed, if America exemplifies the libertarian traditions of Jefferson and Burke, Mexico is a statist nightmare, where foreign companies use the government to break lawful strikes and average citizens have neither recourse to the courts nor any protection against acts of intimidation by the police.

In a recent paper, attorney Alicia Ely Yamin follows the career paths of several prominent police officials involved in acts of torture, murder, and violence. "What emerges is a pattern in which prominent offenders—most of them high-ranking [police] commanders—are quietly reassigned to different states after their crimes are exposed. Once in new posts, the officers continue to torture and kill until adverse publicity leads to a further 'suspension' and transfer," she writes.⁶

Salinas and the Catholic Church

While the PRI under Salinas has used very tough measures against political opponents, it has followed a different strategy with the Roman Catholic Church. Instead of confronting priests and bishops who advocate greater democratic opening and legal accountability for public officials, Salinas has seized the tactical offensive by moving to restore full diplomatic relations with Rome. Political restrictions on the church have been relaxed, and the papal envoy in Mexico City has lavished praise on the Salinas regime, which in turn has given its tacit approval for efforts to push back the advances made by other Christian sects operating in Mexico. Troublesome bishops, meanwhile, are gradually being retired or circumvented by more politically reliable members of the clergy.

In many respects, the Catholic Church in Mexico seems to be moving toward a de facto political alliance with the PRI. In March 1992, Papal envoy Jerónimo Prigione bragged publicly that other Christian sects would be "exterminated" through a vigorous effort to bring Mexicans back to Cathol-

icism.⁷ In response, Alberto Montalbo, head of the National Forum for Evangelical Churches, denounced the Vatican for attempting to reap political benefits from its rapprochement with the PRI.⁸

The efforts by Salinas to find new allies such as the Catholic Church should be seen as part of a broader effort to maintain single-party rule under the PRI, an effort that has included sophisticated efforts to either destroy or co-opt potential sources of political opposition. The Reagan and Bush Administrations deliberately ignored the grotesque political situation in Mexico, a short-sighted policy consistent with Washington's pandering approach to thuggish regimes in Communist China and Haiti.

After a fraud-tainted election brought President Salinas to power in 1988, the Bush Administration provided massive financial assistance to Mexico and naturally made a conscious decision not to broach sensitive subjects like electoral fraud, drugs, or human rights abuses. Starting with billions of dollars in bridge loans from the Treasury in 1989, and the Brady Plan a year later, "free trade" is the third leg of a broad support effort engineered by two Republican administrations in Washington and financed by the World Bank and private investors.

Facing Threats to Stability

And yet there are signs that the Salinas juggernaut is running out of steam—and foreign money. The abrupt trade opening by Salinas has hurt Mexican companies unprepared for foreign competition, causing unemployment to surge and pushing Mexico's trade balance into the red to the tune of \$20 billion for 1992—100 percent above the previous year. Mexico's public and private foreign debt now totals over \$120 billion, up from roughly \$90 billion following the abortive 1989 Brady debt reduction plan.

The immediate threat to Mexican stability is financial. When Salinas is forced to adjust the value of the peso downward, prices for imports will soar and Mexico's ability to service its burgeoning public and private dollar debt—and buy American goods—will

be considerably diminished. Another round of debt renegotiations will inevitably ensue. But more important, the fragile covenant between the government and Mexico's inflation-weary people will be shattered—and with it the now strong support for President Salinas.

The second and more ominous threat is political, however, and comes from the fact that the people of Mexico independently are building a new civic culture based on legal frameworks rather than the personalities and patronage that have characterized PRI rule. Whereas the martyrs of Tlateloco in 1968, when the Army murdered thousands of students, by and large were the children of intellectuals, today's democratic activists represent a broader cross section of the Mexican populace that increasingly includes women and, most significantly, Mexicans of Indian and mixed blood, who most often have been excluded from real economic and social power.

No one knows what the future holds for Mexico. Its economy is growing, at least for those at the very top, but its legal and political system is tyrannical. If the Mexican political and legal environment can be changed, Mexico might have a bright future in the twenty-first century. □

1. Many thanks to Andrew Reding, director, the Mexico Project, World Policy Institute in New York, for the translation of Vargas Llosa's statement.

2. Tim Padgett, "El 'regreso' de Don Porfirio," *El Norte*, September 29, 1992.

3. The most recent murder of Ignacio Mendoza Castillo, apparently due to a dispute over money, is a case in point. See Alejandro Junco, "Mexican Journalists Shouldn't Feed From Hand That Slaps Them," *The Wall Street Journal*, December 4, 1992.

4. *Morning Edition*, National Public Radio, November 18, 1991.

5. See cover story, *Proceso* #187, June 29, 1992.

6. See Alicia Ely-Yamin, "Justice Corrupted, Justice Denied: Unmasking the Untouchables of the Mexican Federal Judicial Police," Mexico Project, World Policy Institute, The New School for Social Research, New York, N.Y., November 20, 1992.

7. Roughly 95 percent of Mexicans are Catholic, while only 564,000 are identified as being affiliated with evangelical Christian sects. Significantly, Mexico's educational system is atypical of the rest of Latin America in that its primary and secondary schools are almost entirely secular, a phenomenon that reflects the strong anti-clerical tradition in Mexico.

8. Lourdes López, "Acusan evangélicos a Vaticano de presionar por relaciones," *El Norte*, September 25, 1992.

THE LIFE, DEATH, AND RESURRECTION OF AN ECONOMY

by Michael C. Monson

With the fall of Communism, economic development is now the principal concern of hundreds of millions of Eastern Europeans and citizens of the former USSR. In determining which policies to pursue, though much can be learned from the successful economies of other countries, every bit as much can be learned from countries whose economies have gone awry. This article seeks to illuminate how to develop economically by focusing on an economy that has seen perhaps the most dramatic swings of this century—the economy of Argentina.

Today, it is not widely known that for generations Argentina was the most prosperous country in Latin America. This is the story of how it got there, how it fell, and how it is now trying to get back.

Despite possessing the crown jewel of the pampas, the richest agricultural region in all of Latin America, Argentina was for the Spanish conquistadors a mere afterthought. The Spanish were interested in gold, and Argentina had none. So, while Spain focused on the mines of Mexico, Peru, and Bolivia, Argentina languished.

To protect the flow of mineral treasures back to Spain against pirates, Spain limited the routes of all trade fleets primarily to

Panama and Lima. Only a few ships were permitted to land in Argentina. The sheer distances of transporting goods to the authorized ports made it effectively impossible for Argentina to export goods and made imports astronomically expensive. Buenos Aires became the most expensive city in Latin America.

Of course, all the Spanish regulations and restrictions did not stop trade, they just drove it underground. By the mid-1600s the port of Buenos Aires was brimming with Dutch and English ships engaged in open smuggling. Smuggling had become a way to survive. By the time the Spanish fleet system was abolished in 1735, 90 percent of Argentina's commerce was transacted illegally.¹

Another thorn in Argentina's side related to the Portuguese settlement of Sacramento located just across the Rio de la Plata from Buenos Aires. The lower duties exacted by Portugal enabled Sacramento's merchants to offer lower prices than the merchants in Buenos Aires.

In addition, as if Spain was not doing enough to impoverish Argentina, Spain imposed tariffs on trade between Buenos Aires and internal South American markets. Spain also implemented controls on the flow of specie. Spain was, in effect, strangling Argentina economically.

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In response to growing protests, the Spanish Viceroy of the Rio de la Plata jettisoned the mercantile monopoly in 1777 and embraced free trade. While free trade was ostensibly limited to ships of Spanish registry sailing within the Spanish Empire, the practical effect was to liberalize trade across the board. Prosperity surged on a tidal wave of commerce. The population of the province of Buenos Aires tripled over the next 22 years. The annual exportation of hides increased nearly tenfold within five years, and customs receipts rose 20-fold in fewer than 20 years.² Commerce expanded so rapidly that the region quickly became the wealthiest in South America.

The Napoleonic conflict in Europe at the turn of the century caused a series of trade disruptions which led to increasingly strident demands by Argentines for unrestricted free trade. Because the merchant-monopolists made rich from Spanish trade regulations were among the most prominent supporters of continued Spanish colonial rule, Argentines increasingly looked to independence as the only means of assuring complete free trade. In 1809 a memorial was drawn up protesting the state of the economy and requesting the resumption of free trade. This memorial was a direct catalyst of the initiation in May 1810 of the revolution against Spain.

Alberdi and the Era of Free Markets

Having been impoverished by Spanish governmental regulation but made wealthy by free trade, Argentines had learned from experience the value of capitalism. Argentina was thus receptive to the ideas put forth in 1852 by Juan Bautista Alberdi, one of Argentina's greatest jurists, in his classic *Bases for the Political Organization of the Argentine Republic*. Alberdi wrote: "Today we must strive for free immigration, liberty of commerce, railroads, the navigation of our rivers, the tilling of our soil, free enterprise, not instead of our initial principles of independence and democracy, but as essential means of assuring ourselves that these

will cease being mere words and will become realities."³

Alberdi's classic had a major influence on the drafting of the Constitution of 1853 which supported free markets and favored foreign investment. Alberdi's call for free enterprise and free immigration, though directed at all of Latin America, was most fully implemented in Argentina.

The results of embracing free-market principles were dramatic. During the 50-year period preceding World War I, Argentina experienced a phenomenal rate of economic growth, one virtually without parallel in world history. From 1865–69 through 1910–14 railway trackage grew at 15.4 percent per year from 503 kilometers to 31,104, exports at 6.1 percent from 29.6 million gold pesos to 431.1 million, and real GDP at a probable 5 percent or higher.⁴

In 1890 the new leader of Argentina refused to accept the presidency until prominent citizens lent enough money to the government to avoid defaulting on British loans.⁵ It was considered critical that Argentina not be deemed an insolvent nation. This attitude helped Argentina garner massive amounts of investment from overseas. By 1889 Argentina was receiving 40–50 percent of all British overseas investment. British investments in Argentina exceeded those in either Australia or New Zealand.

Argentina's railroad system, the largest in Latin America and one of the largest in the world, was primarily built with British capital. Railroads were critical to Argentina's rapid development, and without foreign capital simply could not have been built as rapidly or as extensively.

The three decades spanning the turn of the century were years of stunning economic growth. Wheat exports rose from less than 100,000 tons per year to approximately 2,500,000. Frozen beef exports rose from less than 25,000 tons to more than 365,000. Railway mileage went from 2,800 to 21,000.⁶ It was a period, for the most part, of laissez-faire capitalism. Foreign investments and immigration were encouraged. Personal liberty and economic liberty were supported.

During this period the most influential philosopher in Argentina was the libertarian, Herbert Spencer.⁷ Indeed, a leading critic attacked Spencerian philosophy for turning Argentina into "one colossal estancia, bristling with railroads and canals, full of workshops, with populous cities, abounding in riches of all kinds, but without a single learned man, artist, or philosopher."⁸ While intellectuals might deplore Argentina's growing wealth, the masses did not. During this period, Argentina probably ranked second only to the United States in the number of immigrants, and was far ahead of the United States in the proportion of immigrants to total population. More than two million people poured into Argentina from 1881 through 1910. Most of the immigrants were not intellectuals but working poor looking for a better life. During these decades Argentina's economic prospects looked as attractive as those of any other country in the world.

Despite this huge influx of immigrants, from 1886 to 1914 per capita wealth grew five times as fast as the population. Argentina's per capita income equalled Germany's by 1895 and was higher than those of Austria, Italy, Norway, Spain, Sweden, and Switzerland.⁹ Literacy skyrocketed from 22 percent in 1869 to 46 percent in 1895 and 65 percent in 1914, a level higher than most of Latin America would achieve even 50 years later.

In 1910 Argentina had the tenth most important economy in the world and was one of the five largest exporters.¹⁰ Its capital was the second largest city in the Western hemisphere. Its foreign trade exceeded that of Canada.

In less than 30 years Argentina had undergone a renaissance. From the most prosperous country in Latin America it had become one of the most prosperous and admired countries in the world. Unfortunately, the free-market policies which had propelled Argentina to its economic success were now to be progressively abandoned. Argentina's demise was not swift and solely the result of a single cause. It took the Argentine government years to decimate

what was at the beginning of this century one of the strongest economies on this planet.

The Decline Begins

Precursors of this decline began to appear during the Irigoyen administration which took office in 1916.¹¹ Though not the first Argentine leader to talk of economic nationalism, Hipólito Irigoyen was the first to give it prominence as a policy. Harangues against foreign investments became more common and strident. Legislation was passed controlling hours of work, setting minimum wages, and otherwise "protecting" workers. Now that the government was taking care of them, a law was also passed penalizing strikes.

In 1919 Argentine government expenditures began a steep ascent and the bureaucracy grew apace. In 1922 a national petroleum agency was set up to develop all newly discovered oil fields, on the basis that public utilities should be owned by the state. In 1927 a bill to nationalize Standard Oil passed the lower house but was defeated in the Senate. Around the same time, agricultural subsidies were initiated. Over the next several decades, the cost of the ever-expanding Argentine government would become a growing burden on the back of the Argentine economy.

During the 1920s a measure of anti-Americanism developed. The United States had a large share of several Argentine markets but Argentina had been unable to develop large export markets to the United States due to a variety of U.S. restrictions and constraints. Partly in response to this trade deficit, substantial increases in tariffs were promulgated in 1923 to "protect" Argentine commerce and generate more revenue for the state.¹² "League of Nations tariff studies in 1927 concluded that, although the 1925 Argentine average tariff on a representative group of manufactured commodities was below that of the United States, it was above those of Canada, France, Germany, and Italy, among others, and at about the same level as that of

Australia."¹³ While Argentina's tariffs on selected items might have been below those exacted by the United States, the ratio of total import duties to total imports was higher in Argentina as more items were subject to tariffs.

Despite the ominous trend away from capitalism, Argentina's economic growth through 1929 remained robust, comparing favorably with growth in Canada or Australia. However, from 1927 to 1929 governmental revenue dropped 1 percent while expenditures rose 34 percent, and gold convertibility was abandoned in December 1929. True governmental profligacy had arrived, with the treasury openly looted. One of the results was political destabilization. In 1930 Argentina suffered a military coup and lurched toward fascism. Military expenditures increased despite the economic depression, and protectionism was promoted through further increases in tariffs.

In response to the worsening economic and political situation, capital began to take flight. Rather than deal with the economic and political problems, the government attacked the symptoms by instituting exchange controls, suppressing unions, and initiating strict press censorship.

In 1931 a rival military faction took control. While implementing some welcome fiscal reforms, an income tax was also introduced along with the first substantial moves toward government control of the general economy—marketing control boards for meat, cereals, milk products, and wine.

Though Argentina struggled through the decade of the thirties, it was virtually the only Latin American country to maintain service on its external loans. Despite the counterproductive governmental policies, the Argentine economy was still resilient enough for 1937 Argentine per capita income to equal that of France.

Massive Intervention Unravels the Economy

Economic conditions began to unravel rapidly in the face of massive governmental

intervention in the economy instituted after another military coup in 1943. The federal government increasingly intervened in provincial affairs, reducing the ability of the provinces to offset the effects of misguided federal economic policies. Political parties were banned, press restrictions increased, and political opponents harassed and threatened; all of which served to reduce the ability of Argentines to debate policy proposals.

With dissent muzzled, a plethora of decrees began to emanate from the government in late 1943. All strikes were banned. A 20 percent reduction in rural rents was decreed. A cut in Buenos Aires tram fares was ordered. The British-owned gas company was nationalized. In April 1944 the government took over the entire grain trade including grain elevators and warehouses. The government ordered a rent freeze in Buenos Aires and sought to control food prices. The government intervened in the economy whenever it thought it could gain support from some benefited constituency.

To maintain the support of the military, military spending soared from 17 percent of total governmental expenditures in 1943 to 43 percent in 1945, while the army grew from 30,000 to 100,000. This growth occurred despite Argentina's neutrality during World War II.¹⁴

While tariff rates in the United States steadily declined after 1932, in June 1944 Argentine tariffs were again raised substantially and quotas were imposed on a variety of imports. Protectionism became official policy, and freed from the rigors of international competition, Argentine productivity began to decay. A minimum wage was established for rural workers.

Throughout all of this, the country was deluged with propaganda justifying every new intervention. Every intervention was for the welfare of the people, another piece of "progressive" legislation. Argentina was progressing in one sense. It was progressively reducing the liberty of its citizens and, as a natural corollary, their standard of living.

The First Perón Era

During this period one man was becoming increasingly powerful in the government. As Secretary of Labor, he began in 1944 to pour forth a torrent of enactments mandating improvements in workers' pay, vacations, pensions, housing. He intervened in strikes to impose settlements favorable to the unions, but only those unions recognized by his department, thereby undermining union leaders opposed to him. In 1946 this man, Juan Perón, became President.

Perón was a demagogue promising a higher standard of living and more political power to the workers and peasants. Having gained power on the basis of economic intervention in the economy, he now opened the floodgates. If the public mistrusted bankers, he would nationalize the banks. He did so in March 1946. If the people wanted money, he would print it. Money in circulation skyrocketed. If the state needed money, he would expropriate it. Companies throughout the country began to be nationalized.

In May 1946 he created a new agency to monopolize the trade in all major exports except wool. This agency through its monopoly bought domestic supplies at prices far below world levels and sold them overseas at gargantuan profit. The effect was devastating. Denied fair prices, producers cut back production, laying off thousands of workers who flooded into the cities.

To delude the public into thinking that the government was acting rationally, a five-year economic plan was issued in late 1946. Its primary aim was industrialization to free Argentina from "foreign shackles." Now any doubts about the wisdom of governmental policy could be dispelled by pointing to the projected results of the five-year plan. No need to worry, the government had a plan.

With businessmen no longer able to plan, as economic decisions were increasingly dictated by economic decrees emanating from the government, the economy began to falter. Rather than giving the government cause to reflect, the declining economy

merely spurred the government to even more oppressive intervention.

In 1949 Perón replaced the 1853 Constitution. The new constitution gave the federal government complete control over the economy. Now the frequency of expropriations increased, strikes were opposed, and new press controls initiated. As more and more Argentines began to realize that their country's economy was crumbling, the government announced sterner measures to dampen dissent. In 1950 new treason, espionage, and contempt laws appeared. The supreme court was packed. In 1951 the government even expropriated *La Prensa*, the most prestigious paper in the country and one of the premier papers of the world. Propaganda increased, including a fatuous second five-year plan in 1952. By now the government was routinely falsifying data to obscure the bankruptcy of its economic policy.¹⁵

By 1950 Perón's regime was on the ropes economically, but was saved by a \$125,000,000 loan from the U.S. taxpayers. Perón was free to wreak yet more havoc on the economy of Argentina.

As a result of printing money by the bushel, inflation was accelerating. Rather than deal with its own profligacy, the government instituted a two-year wage freeze in 1952.

As a result of the 1943 rental freeze in Buenos Aires, there was now an acute shortage of rental housing in the capital.

As a result of governmental expropriation of agricultural wealth through the government's marketing monopoly, agricultural output in the Pampas region was by 1955 only 84 percent of what it had been in 1935-39. In 1909 Argentina had been the world's largest exporter of grains. By 1951 Argentina was importing wheat.

As a result of governmental trade policies and nationalizations, Argentina's economic performance began to lag the economic performance of other recently settled countries such as Australia and Canada. "Argentina turned her back on the worldwide expansion of trade, while Canada and Australia profited from it."¹⁶ By 1954 the

average age of a car in Argentina was 17 years.

As a result of governmental profligacy, a country that had a history of being one of the world's primary beef producers was reduced to suffering periodic bans on domestic beef sales, "meatless days," in order to funnel all available beef to the export market to generate hard currency for the exchequer. This in a country where in 1773 a traveler had written: "Meat is so abundant that when it is carted in quarters across the plaza, if a quarter happens to slip off, the driver never stops to pick it up . . . and even a poor beggar on the street doesn't bother to take it home with him."¹⁷

With the economy grinding to a halt and public opposition mounting, the government was forced to lift the wage freeze in April 1954. Now the underlying inflation that the government had tried to hide through its wage freeze became obvious. It was the last straw. In September 1955 Perón was forced from office by the military.

During his reign money in circulation increased at least fivefold. Foreign reserves declined to one-seventh of what they had been. Per capita GNP was only 16 percent higher in 1955 than in 1943. Exports had declined precipitously. After decades of being the premier economy in South America, Argentina had now been passed by Venezuela in per capita income and by Brazil in foreign trade.

Perón, the demagogue who had promised a better life to the workers and peasants, had instead destroyed Argentina economically and destabilized it politically. He had transformed Argentina into a welter of conflicting special interest groups focused solely on appropriating for themselves the largest possible share of the economic pie. Argentine politics had become a matter of courting special interests at the expense of national interests.

Political and Economic Instability

Over the next 21 years Argentina suffered 12 different governments. The longest reign

of any government was four years. A couple of governments disappeared within three months. There was no continuity of policies. Economic planning was impossible, for a subsequent governmental decree might destroy any projected benefits. Capital fled the country.

Periodically when the economy was suffering there would be a move toward economic deregulation, but soon such a policy would be jettisoned to favor some special interest. Despite the havoc wreaked by Perón's interventions in the economy, there was still widespread support for socialism, that is, for government control of the economy. In May 1958 a 60 percent wage boost for unions was suddenly decreed along with a general price freeze, an increase in pensions, and a reduction in transit fares. In 1959 there was a devaluation. In 1960 inflation began to skyrocket and devaluations became routine.

The state became known for deficits, inflation, price controls, devaluations, debt renegotiations, favoritism toward nationalized companies, and ludicrous regulations like the freeze on agricultural rents in place since 1943. By the late 1960s an entire generation of Argentines had been raised in an environment in which the primary purpose of government appeared to be to divide the spoils. Government had become just what Voltaire had declared it to be: "A device for taking money out of one set of pockets and putting it into another."¹⁸

In such an environment it is not surprising that changes in how the spoils were divided became viewed as attacks on constituencies. Beginning in late 1969 Argentines began a long descent into violent attempts to secure control over this division of the spoils.

Perón Returns

In this time of trouble the country turned again to its self-proclaimed savior, Juan Perón, living in Spain. From 1955 on he had remained the most popular Argentine politician and leader of the strongest political party. Despite his shattering of the econ-

omy, the continuing economic decline ironically caused many to recall his era as a period of prosperity and to give him the credit. He was being judged not on the basis of the economic shambles which his policies led to after he was in office, but rather on the state of the economy he inherited as a result of the policies of his predecessors.

Perón ruled from late 1973 until his death in July 1974. In May 1974 Perón had given his Marxist supporters an ultimatum to subordinate themselves to his control or be expelled. The result was a virtual civil war. By 1976 there was a political murder every five hours and a bomb explosion every three.¹⁹ Thousands of people, the *desaparecidos*, were secretly arrested, incarcerated, tortured, and killed by the military governments of the late 1970s. Now Argentina was not only bankrupt economically but also in terms of social justice. As former President Arturo Frondizi (1958–62) warned in 1974: "[T]here is no investment; where there is no investment there can be no economic development; and where there is no economic development there can be no social justice."²⁰

The relative decline of the Argentine economy is virtually unprecedented in modern times. From one of the most free and prosperous countries in the world, Argentina had declined in less than 75 years and in the absence of war to a country periodically ruled by despots whose standard of living had collapsed. As late as 1945 Argentina was still the seventh wealthiest country in the world. In 1984 it ranked between the 60th and 70th. By 1984 more than 60 percent of the economy was state-owned. There was a government monopoly or near-monopoly in oil, natural gas, minerals, telephones, airlines, railways, chemicals, steel, insurance, banking, broadcasting, electricity, *ad naufragium*. In an attempt to avoid the disastrous effects of governmental interference in the economy, the underground economy had grown to such an extent that by some estimates it had become as large as the official economy!

From 1979 to 1986 per capita income declined 16 percent to the level of 1966. In

1914 hourly pay rates in Buenos Aires were 25 percent higher than in Paris and 80 percent higher than in Marseilles. In 1986 they were at the level of Korea. In a country once called the breadbasket of Latin America, 17 percent of Argentines in 1986 were living on the food dole.²¹

Argentina's history of inflation mirrored its economic decline. "Between 1914 and 1929, the U.S. consumer price index rose by 71 percent and that for Canada by 51 percent, while the Argentine increased only by 31 percent."²² However, during the 1930s Argentine inflation began to outpace inflation in the United States, and by 1949 Argentine prices were rising much faster than in the United States or Western Europe. From 1955 through 1959 the cost of living in Buenos Aires rose by 39 percent annually. By the late 1980s it was not unheard of for 30 percent price increases on everything in a store to be announced over the loudspeakers.

The average annual growth rate of real GDP for Argentina during 1980–88 was negative. Argentina ranked 123rd among 138 countries. Of the 20 poorest countries in the world, only Mozambique had a lower growth rate.²³

Moving Away from Socialism

In 1989 a new government came to power and under its fourth minister of economy, Domingo Cavallo, began the arduous task of turning a bankrupt, socialistic economy into a capitalistic one, precisely the task facing the new democracies of Eastern Europe and the Commonwealth of Independent States.

To increase economic freedom the economy was deregulated. Regulatory agencies were not merely directed to reduce paperwork or advised that there would be a hiring freeze, they were abolished. Recently the number of abolished regulatory agencies stood at 36. Trade restrictions were lifted, foreign exchange controls eliminated, and restrictions on days and hours of business jettisoned.

To increase economic incentives tax rates were cut. Capital gains tax rates were not

indexed to inflation or reduced by a token amount, they were eliminated.

To increase competition several steps were taken. All import quotas, except on cars, were abolished. The average tariff was sliced from more than 40 percent to 9 percent. All subsidies to private companies were scrapped.

To decrease economic uncertainty regarding the future, the role of the government in the economy was reduced. Legislation was passed requiring that Argentina's currency be backed by hard currency reserves. Another law made it illegal to institute wage and price controls. State enterprises were privatized, and the federal government's work force was cut by 20 percent.

The results of moving from socialism toward capitalism have been dramatic. In 1991 and 1992 the formerly bankrupt government ran a surplus. Inflation has fallen dramatically to a 20-year low. In 1990 the annual inflation rate peaked above 20,000 percent; today it is under 20 percent. The economy grew 5 percent in 1991, a rate higher than that achieved by the United States, and 6 percent in 1992. Argentina has renewed foreign-debt payments, the Argentine stock market has soared, and Argentina just completed its first successful placement of Argentine bonds in the Euromarket. Argentina's foreign debt, which had been trading on the secondary market at 13 percent of its face value, has risen to 45 percent.

Sadly, the history of Argentina provides a paradigm of how socialistic policies can bankrupt a society. As Domingo Cavallo has said: "For fifty years [Argentina] had politicians worried about how to take from John to give to Peter, rather than thinking of the future, of the sons of Peter and John"²⁴ Fortunately, Argentina is now on the way to providing another para-

digm, that of how to convert a bankrupt, socialistic economy into a thriving capitalistic one. If these free-market policies are continued and expanded, then the prospects for Argentina's future may be as bright today as they seemed nearly 100 years ago. □

1. John A. Crow, *The Epic of Latin America* (Berkeley, Calif.: University of California Press, 1980), p. 372.
2. Crow, p. 378.
3. Crow, pp. 596-7.
4. Carlos F. Díaz Alejandro, *Essays on the Economic History of the Argentine Republic* (New Haven, Conn.: Yale University Press, 1970), pp. 2-3.
5. Just recently I saw for the first time a Washington-based former government official advocate that the United States default on its national debt.
6. Sanford A. Mosk, "Latin America and the World Economy, 1850-1914," in *People and Issues in Latin American History* edited by Lewis Hanke and Jane M. Rausch (New York: Markus Wiener Publishing, Inc., 1990), pp. 88-9.
7. Arthur P. Whitaker, *Argentina* (Englewood Cliffs, N.J.: Prentice Hall, 1964), p. 61.
8. Whitaker, p. 61.
9. Michael G. Mulhall, *Industries and Wealth of Nations* (New York: Longmans, Green and Co., 1896), p. 391.
10. Arturo Cruz, Jr., "Glory Past but Not Forgotten," in *Insight*, August 6, 1990, p. 10.
11. The 1916 election was the first in which all adult males could vote without meeting either a literacy or property qualification. Women were not permitted to vote until 1947.
12. It is fascinating to note that this same counterproductive policy and variants of it are currently being touted as a solution for our trade imbalance with Japan.
13. Díaz Alejandro, p. 284.
14. Argentina did belatedly declare war on the Axis in April of 1945.
15. In the 1980s the United States government created an accounting gimmick, which permitted America's savings and loans to appear to have more capital and obscured the bankruptcy of governmental policy, that would lead to America's most costly financial disaster.
16. Díaz Alejandro, p. 112.
17. Crow, pp. 374-5.
18. Some pockets were bigger than others. When Perón fled in 1955 his personal cellars in Buenos Aires held \$25,000,000 in gold. This figure is dwarfed by the billions alleged to have found its way into various pockets during the administrations of Mexico's José López Portillo and Luis Echeverría.
19. Richard Gillespie, *Soldiers of Perón: Argentina's Monotoneros* (Oxford: Clarendon Press, 1982), p. 223.
20. Donald C. Hodges, *Argentina, 1943-1987* (Albuquerque, N.M.: University of New Mexico Press, 1988), p. 184.
21. Norman Gall, "The Four Horsemen ride again," in *Forbes*, July 28, 1986, p. 102.
22. Díaz Alejandro, p. 362.
23. *The Economist Book of Vital World Statistics* (New York: Times Books/Random House, 1990), pp. 40-7.
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WILL CONSTITUTION TRUMP REVOLUTION IN EASTERN EUROPE?

by K. L. Billingsley

The movement that saw itself as the wave of the future, and whose leaders threatened to bury the West, is now consigned to the ash dump of history. Communism, the nationalization of human beings, officially died in 1989, some 70 years and countless millions of casualties too late. That year saw the reversal of the domino theory, with the vassal states of the Soviet Empire throwing off their chains and smashing down walls at an astonishing rate.

The democratic revolution was for the most part peaceful and has brought enormous gains in freedom, the only true basis for the future prosperity that the region so desperately needs. But are those revolutionary gains currently being undone by constitutional means? That may well be the case, according to an American who helped draft some of those constitutions. He is a man well suited to the task.

University of Chicago graduate Bernard H. Siegan is Distinguished Professor of Law at the University of San Diego. An expert on the Constitution, he was a member of the National Commission on the Bicentennial of the Constitution. Professor Siegan also served as member of President Reagan's Commission on Housing and as a

consultant to the Department of Justice. Known as a strong defender of property rights and free enterprise, Siegan is a former columnist for Freedom Newspapers and author of a number of books including *Land Use Without Zoning* and *Economic Liberties and the Constitution*.

In 1987 Ronald Reagan nominated Siegan for the Ninth Circuit Court of Appeals and the nomination received strong backing across the political spectrum. Supporters included former Chief Justice Warren Burger, Nobel laureates Milton Friedman and James Buchanan, and the liberal author Alan Dershowitz, professor of law at Harvard. But the nomination touched off a furious reaction from the American left, particularly its extreme reaches. The reason for such reaction is not difficult to discern.

Always out of touch with the people, the left has relied on unelected judges to push through its policies by judicial fiat. Activists in these quarters are not fond of judges who interpret the Constitution according to the intent of its authors, and not as a blank check for statist intervention. Professor Siegan does not believe, as does the left, that a court constitutes a robed politburo. He also fails to find mysterious rights hidden in "emanations" and "penumbras."

Bankrolled by Hollywood moguls such as Ted Field, Norman Lear's People for the

K.L. Billingsley is a media fellow of the Pacific Research Institute in San Francisco.

American Way launched a massive propaganda campaign against Siegan and flooded the land with a slick 39-page document opposing his nomination. The campaign rivaled the vicious slanders against Robert Bork. The radical National Lawyers Guild expressed "vehement opposition" to Siegan's appointment.

Anita Hill and her defenders should consider Siegan's ordeal. For 18 months the powerful Senate Judiciary Committee combed the professor's record trying to find some moral basis on which to dismiss him. All they succeeded in finding was a record of outstanding scholarship, sound legal practice, and moral rectitude. Unfortunately, partisan politics ensured that the nomination did not get out of committee. This disappointment, however, did not prevent the professor from finding other important work. In recent years Mr. Siegan has provided constitutional advice to countries as diverse as Brazil, Armenia, Ukraine, Canada, and Bulgaria.

Reinventing Bulgaria

One of the Eastern Bloc's most loathsome dictators was Bulgaria's Todor Zhivkov, whose regime murdered defectors such as the poet Georgi Markov. After Zhivkov's removal, the new government of Bulgaria asked the United States Chamber of Commerce—not the official State or Commerce Departments, interestingly enough—to help them with the transition to a democratic society. The Chamber then put together a "Bulgarian Economic Growth and Transition Project" that included Professor Siegan.

The professor made several visits to Bulgaria and consulted with people across the political spectrum. On these trips, said Siegan, "I did not meet a single person who was not enthusiastic about privatization." In August 1990 Siegan suggested to Bulgarian prime minister Andrei Lukanov that the American Constitution should be the "major source" for the Bulgarian constitution. Lukanov was initially wary.

While the Bulgarians accepted the separation of powers, they wanted to invest the

most power in the legislature so "the people" could rule instead of, as had unfortunately been the case, a political party. Many Bulgarians, Siegan found, viewed judges as glorified clerks and were nervous about them ruling on law. But Siegan pointed out that foreigners would not invest in Bulgaria if the parliament enjoyed the unopposed power to confiscate property. With their country desperately in need of foreign investment, Lukanov and his colleagues then began to find the professor's views more acceptable.

Back at his La Jolla home, Siegan penned a 17-page model constitution providing for a national assembly of one or two houses, a president, and a two-part supreme court, with one part to deal with exclusively constitutional matters. Though indeed based on the U.S. Constitution, the model reinforced guarantees of individual rights, particularly property rights. Siegan purposely made the constitution difficult to amend because "a constitution that can be readily changed is more of a law than a constitution." By its very meaning, the professor argues, "a constitution must be enduring."

"Every person has the right," Siegan's draft said, "to purchase, acquire, rent, own, use, sell, lease, transfer, and inherit private property, or any part or portion thereof." Siegan also showed that he had learned the lessons of the West, as well as those of the East. His model constitution forbade the government to incur "an indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenues provided for such year." When state revenues exceed expenditures, "the surplus shall be used to reduce the amount levied for the subsequent year." Further, the maximum amount of taxes on real property or commercial ventures "shall not exceed one percent of the full market value of such property or venture." Such language would have free-spending American representatives snapping full clips into their Uzis.

Siegan's Model Constitution

Siegan soon found his services much in demand. Representatives from several So-

viet republics, including Armenia, sought him out through Resistance International. The Burmese Resistance Movement, not yet in power, also made overtures. In cooperation with the Locke Institute and the Institute for Humane Studies, the professor then set to work on "Drafting a Constitution for a Nation or Republic Emerging Into Freedom."

Professor Siegan's suggested model constitution grants citizenship to "all persons permanently residing" within the borders of a nation. It protects peaceful assembly, redress of grievances and guards the freedom of speech, movement, privacy. The rights of life, liberty, and property "include any form of human activity that is not destructive of the rights of life, liberty, and property of others." Persons accused of crime enjoy strong protection, including the presumption of innocence previously lacking all over Eastern Europe. As the late Malcolm Muggeridge put it, the Communists replaced habeas corpus with habeas cadaver.

But as a foreigner all Siegan could do was advise and recommend. The final draft of the actual constitution fell to others. Siegan recommended that the final draft should be submitted for widespread consideration and discussion before approval. This is something that "apparently did not occur," and the final draft contained measures that the professor found alarming.

The Constitution of the Republic of Bulgaria, adopted on July 12, 1991, features what Siegan calls "schizophrenia of language." For example, Article 37 (1) says that "Freedom of conscience, freedom of thought, and choice of religion or religious or atheistic views are inviolable." However, article 37 (2) says that "Freedom of conscience and religion may not be detrimental to national security, public order, public health and morality, or the rights and freedoms of other citizens." Freedom of movement is also subject to restriction, and not just for security purposes. The state can restrict this right for "public health" and the "freedoms of other citizens."

Article 40(1) states that "the Press and other information media are free and not subject to censorship." But Article 40(2)

adds that "a printed publication may be suppressed or confiscated only through an act of judicial authorities, when good mores are violated." Exactly what constitutes "good mores" is not specified and it is a subject on which everyone disagrees, particularly politicians. The freedom of movement guaranteed in article 35(1) is subject to restriction "in order to safeguard national security, public health, or the rights and freedoms of other citizens."

Article 17(3) declares private property "inviolable," but there is no guarantee of fair compensation when the state must expropriate. Further, Article 18(1) proclaims the state "sole owner of all underground resources, the coastal beaches, public roadways, waters, forests, and parks of national significance, natural preserves, and archaeological sites." The formulation "underground resources" is a rather sweeping one that surely includes mining, petroleum, drinking water, and possibly even agriculture.

The Bulgarian constitution also provides for a minimum wage, "free obstetrical care, easier working conditions, and other types of social assistance." Citizens have the "right to health insurance . . . and to free medical services." Citizens also have the right "to a healthy and favorable environment, consistent with stipulated standards and regulations." Further, "they have an obligation to protect the environment." As Professor Siegan points out, these "rights" are really not rights at all but entitlements whose implementation may inhibit economic liberties and drive up debt even as they have in America. Exactly how the "obligation" to protect the environment will be legislated and enforced remains to be seen. And any responsible person in public life, in any country, should know that no government service can possibly be "free." The temptation to use misleading and utopian language is apparently irresistible to politicians of all nations.

The Czech Charter

The Czech Republic—recently separated from the more agrarian and socialistically

inclined Slovakia—has been billed as the Eastern European nation most committed to democracy and free enterprise. Friedrich Hayek and Ludwig von Mises are reportedly the most popular economists. A number of Western companies have located there and Prague is becoming a magnet for Western youth. Professor Siegan provided the Czechs with constitutional guidance, some of which was evidently not followed.

Article 7(1) of the Czech "Charter of Fundamental Rights and Freedoms," adopted January 9, 1991, says that privacy "may be limited only in cases specified by law." The most casual observer will see the potential for mischief in that clause. Article 11(3) says that property "may not be misused to the detriment of the rights of others or against legally protected public interests." The exercise of property "may not cause damage to human health, nature and the environment beyond statutory limits."

The Czech document proclaims the sanctity of the home "inviolable," but Article 12(3) says that sanctity may be violated "if it is essential in a democratic state for protecting the life or health of individuals, for protecting the rights and freedoms of others, or for averting a serious threat to public security and order."

Freedom of expression, according to article 17(4), "may be limited by law in the case of measures essential in a democratic society for protecting the rights and freedoms of others, the security of the State, public security, public health, and morality." The right of assembly "may be limited by law" to protect "public order, health, morality, prosperity or the security of the State."

Freedom of religion, says Article 14(3) "may be limited by the law in the case of measures which are "essential in a democratic society for protection of public security and order, health and morality, or the rights and freedoms of others."

Professor Siegan laments that the Czech protections are "conditional, much more on the order of the communist than of the

United States Constitution." Siegan notes that there are similar measures in the proposed constitution of Ukraine, another country he has advised.

Reform in Ukraine

This nation of 52 million boasts the most fertile soil in Europe, if not the world, and could emerge as a powerful force in European affairs. Ukrainian president Leonid Kravchuk has been described as a "not-quite-ex-enough Communist" who has threatened to expel journalists as troublemakers. The parliament remains dominated by Communists and the potentially rich economy still suffers from statist policies. There is, however, a vigorous opposition that is gaining strength. In the first week of October, miners from Donetsk came to Kiev demanding genuine privatization of the economy. The opposition Rukh movement, which supports the miners, also wants new elections and a referendum on a new constitution.

Thus, the timing seemed especially right for Siegan's visit to Ukraine in October of 1992. The professor expounded his constitutional philosophy and reports that his speech was well received. After all his travel and hard work, it is Siegan's hope that Ukraine may avoid the pitfalls of the Bulgarian and Czech constitutions. In those countries the exceptions to the basic rights are so broad, Siegan says, that "the exceptions seem to consume the guarantee." Indeed, the loopholes seem large enough for tanks to drive through, and they may do just that.

Siegan notes that the world has recently seen extraordinary historical events that few had forecast. "Almost simultaneously," he says, "millions of people in many countries shed despotism in favor of freedom" and demolished a system "which smothered their humanity and foreclosed their opportunity for progress and betterment." In the entire history of freedom, Siegan says, "there never has been so great an advance within so brief a period."

That is why the professor believes it would be a "horrible tragedy if governments

were now established that would return these people to "the oppressions from which they escaped." Without mentioning names, Siegan says that he has observed American advisers who urged new states to adopt measures "that might bring about such a terrible result." In fact, some Czech officials told Siegan that their greatest problem is now "infiltration from the West." Those Eastern Europeans who favor statist measures openly acknowledge influence from France, Germany, and Britain.

The democratic revolution in Eastern Europe, says Siegan, was "against an evil system and not evil rulers." The reforms were "intended to minimize the rule of the state and maximize the freedom of the people." Those who "advocate establishing a huge governmental role in the economies of these nations," says Siegan, "do not comprehend the meaning of what has occurred." Governments "should be powerful enough to protect the people against their foreign and local enemies and domestic perils and excesses," the professor writes. But governments "must never be powerful

enough to oppress the people or inhibit their wisdom and productivity."

Based on Siegan's revelations it seems that reports of a laissez-faire paradise emerging in Eastern Europe are greatly exaggerated. The overall quest seems not to build a society based on limited government, individual rights, and free markets but for another version of socialism with a human face—the nanny state without the gulag and Communist party, but with Western pop culture and environmentalism as a kind of civil religion. The preferred model appears to be Sweden, not America, though the differences between these two are not always apparent. Indeed, American politicians seem committed to further encroachments of the state in private life.

Siegan's conclusion thus seems particularly fitting for both Europe and America at this critical time in history: "The great lesson of modern times is the strong relationship between freedom and progress. Maximizing freedom will also maximize a nation's philosophical, cultural, and material resources." □

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VIETNAM: A FATE OF ITS OWN

by James R. Bauknecht

“Lonely, distraught,
Kieu viewed the way ahead with fear and doubt.
A storm-tossed rose . . . such
was her future, all she’d ever be.”

The Tale of Kieu, Nguyen Du¹

Before we left for Vietnam in June of 1992, a Vietnamese friend from California (a Viet Kieu, or Vietnamese expatriate) told us to expect to find a country of people who were barbarians, thieves, or despairing idealists. “Trust no one,” she instructed. “And I really mean it,” she blurted out with an uncompromising wince. Unsettled by the apparent harshness of her comment, we interpreted her views as the excesses of an embittered expatriate. Undaunted, my wife, my daughter, and I set out to discover the land from which my wife, a Vietnamese refugee, had fled 17 years earlier. To our dismay, though we certainly did not encounter barbarians in Vietnam, we soon found ourselves unprepared for the disillusionments, the lies, and petty frauds perpetrated by many Vietnamese who live picaresque lives out of the sheer necessity to survive.

Our lesson about life in Vietnam was not long in coming. On the third day of our visit to Vietnam, we arrived in Vung Tau, a resort

city on the southeast coast. Having rented a room at a government-owned hotel that boasted a pool and other modern conveniences, we discovered, to our mortification, that the pool contained slime that made it useless and dangerous, that our bathroom shower did not work, that two panes were missing from our room’s windows, and that the warped bathroom door not only would not shut, but had no knob either. Believing the hotel management had made an error in assigning us a room, we talked to other tenants, only to discover that most of the rooms of this year-old hotel, were, in full view of management, equally in disrepair. This and many other similar experiences began to suggest the structure of the society into which we had plunged.

Indeed, the harshness and distrust that characterize Vietnamese society today owe to three principal causes: a devastated economy that has produced a vicious and ubiquitous poverty, a corrupt and oppressive Communist government, and an ancient and equally oppressive class system.

Though poverty is not the most fundamental problem in Vietnam, it is the most visible. Never a wealthy country, Vietnam

James Bauknecht has been a Fulbright exchange lecturer at Bury College in Manchester, England, and currently teaches English and world literature at a community college in Wisconsin.

today is, by any standards, impoverished. GNP/per capita in 1990, the latest reported year, fell to \$230 (compared to \$21,800 for the U.S. in the same year).² Most laborers work for less than \$20 per month, and beggars and crime abound. The infrastructure has deteriorated consistently since 1975; most buildings, public works, and manufacturing equipment have fallen into decay. Cars are few, while Honda motorbikes, inexpensive Chinese bicycles, and tri-shaws constitute the bulk of the traffic. Sanitation and health care are woefully inadequate, and the booming population outstrips the country's efforts to feed and clothe itself adequately. With an area of 127,000 square miles, only 80 percent the size of California, Vietnam today holds 69 million people (20 million more than in 1975), and the country maintains its traditional population growth rate which, if unabated, will result in a doubling of today's population within 31 years.³

Large parts of Ho Chi Minh City, the renowned "pearl of the Orient" under its former name of Saigon, are mass slums, where millions of unemployed or marginally employed people live in hovels at night and loiter on the streets during the day. Overflowing with six million residents (compared to 3.5 million in 1975), Ho Chi Minh City gives the impression of a maze of dingy alleys and crowded hovels.⁴ Despite these bleak circumstances, we found the intelligence, the ingenuity, and the dedication to hard work of the Vietnamese people everywhere evident. Though living at subsistence level, Vietnamese impressed us by the ingeniousness with which they earn a meal or a few *piasters*. A scale (albeit a marginally accurate one) earned its owner, who weighed pedestrians at the city zoo, about 30 cents a day. In like fashion, families worked long hours making and selling bamboo brooms and mats. However admirable, such initiatives cannot undo the deprivation of years spent under a dysfunctional Marxist economy that, with the U.S. trade embargo and the recent loss of the yearly two billion dollars of Soviet aid, has teetered on collapse.

Winning the War, Losing the Peace

The Communists in Vietnam won the war, but they lost the peace. Their revolution, though a clear military success, changed very little the way in which Vietnamese relate to each other. In fact, the Communists replaced a semi-feudal ruling class with a less educated and even more oppressive class of party bureaucrats, politicians, and military rulers. Privilege, bribery, intimidation, and personal favors remain the primary mechanisms of political power and economic advantage.

In Ho Chi Minh City we visited the home of a relative, only to find that he no longer lived there. After we had located our relative, he told us, with a tone that vacillated between resignation and thinly veiled hatred, that he had been forced to exchange homes with a party cadre. He had left his middle-class home for a cadre's hovel without even a word of complaint. For like the masses of Vietnamese who have no meaningful mechanism by which they can assert political power, this elderly gentleman knew that protest would have landed him in jail. He sighed that his fate, like the fate of Kieu, the literary heroine, was to suffer injustice with a stoic forbearance.

Vietnam is not now, nor was it under the republic, a society in which the rule of law is supreme. Local officials, like some of their republican predecessors, flagrantly contrive legal problems and even make arrests in order to secure bribes with which they support themselves. In what is tantamount to a government-run protection racket, hotels are routinely raided in the dead of night, and cars arbitrarily stopped and searched, in order to coerce their owners into bribing the police. In the former French resort city of Da Lat, for example, our car was stopped twice by policemen for no apparent reason. On both occasions, the Vietnamese driver (whom we had to hire because foreigners are prohibited from driving) was pulled aside and asked who his passengers were. Lying, he declared that we were French, then paid the \$3 bribe demanded by the police. Later he told us that had he disclosed that we were

American, the cost would have been \$10 each time.

The Tyranny of the Marxist Elite

Marxist rule in Vietnam will leave a political legacy of concentration camps, policies that forced people into near starvation in the so-called "economic zones," and other acts of domination by humiliation that constituted the coin of the realm. Over a "333" beer or a meal, most people in Vietnam have a tale of oppression to tell. In Ho Chi Minh City we met a Mr. Thuy and his family of six who, many years earlier, had been forced into the countryside to help develop new economic zones in uncleared jungles and rugged mountains.⁵ Thuy's family, like many others, were left on their own (often without sufficient tools and supplies) to establish new agricultural areas and communities. Unable to grow sufficient food under these primitive conditions, they often subsisted at the brink of starvation. Years later, covertly returning to Ho Chi Minh City under the darkness of night, the family found refuge on the grounds of a pagoda, where they lived in a thatched shack 100 square feet in area. Since they were illegally living in the capital, they were not issued ration cards that would have allowed them to buy food and clothing, nor were Thuy and his wife able to find legal employment. They survived only because of the generosity of a Buddhist monk, and even today they live without furniture, save one old set of bed springs and two chairs.

Beginning in 1987, the Marxist elite, perhaps sensing both that socialism around the world was on the wane and that its own power would eventually be challenged, adroitly sought to remain in power by granting a limited capitalism which, once profitable, would provide, they hoped, the wealth upon which they themselves could live. Today, the Marxist elite, by means of military and political threats and intimidation, control the incipient wealth the new capitalism produces. No business can be conducted without the entrepreneur having to

bribe the secret police. No government service can be had without the probability that the government worker will demand a bribe. Examples of this type of conduct abound. When we mailed a package from Ho Chi Minh City to Hanoi, we had to pay the clerks at the main post office \$5 so that they would not loot the contents. They provided us the next day with a receipt that listed the mailing price at 51,000 *piasters* (\$4) below the actual price we were forced to pay. Presumably, they pocketed the difference.

In Da Lat in the central highlands, we sought out several hotels that Vietnamese friends had recommended to us. To our surprise, the proprietors of these hotels were forbidden to rent to foreigners, and we were directed to stay at much more expensive (\$36 a day), though lesser quality, government-owned establishments. Nonetheless, after much searching, we located a hotel that was privately owned, but which had informal government connections that allowed it to rent to foreigners at a cost midway (\$12 a day) between the official government rate and the much lower private sector rate (\$3 a day).

We found amazing the extent to which corrupt officials would go to maintain the pretense of respectability. Even though they implicitly demand bribes, they expect the bribe to be offered with subtlety, if not civility. The Vietnamese cultural expectation is that all parties to a bribe tacitly agree to maintain the fiction of propriety. We witnessed first hand how customs officials at Tan Son Nhut airport in Ho Chi Minh City were caught unaware when an Englishman, arriving on the same flight as we did, indignantly and loudly protested at being asked for a bribe. He threatened to march back into the plane, and as officials were confiscating our family's VHS video tapes (we, too, refused to pay the bribe), he was asked to enter an interview room to continue the argument. In our thoughts, we wished him well.

A Rigid Hierarchy Prevails

Vietnam has always been a society of fairly rigid classes that are perpetuated



A food vendor in a Ho Chi Minh City market. Living at subsistence level, Vietnamese show an ingenuity and hard work with which they earn a few piasters.

mainly by inheritance. Of the four traditional classes, the mandarins and scholars, the elite class, have held authority over the farmers, the artisans, and the merchants.⁶ Students born of the masses who were successful in civil service exams could advance to the scholarly class, but such mobility was rare, and people, generation after generation, almost universally remained in the class of their ancestors. These class distinctions, while not constituting a caste system, designate more than simply a hierarchy of economic divisions. A Vietnamese woman, a former maid in Vietnam who now resides in the United States, told me that in America a maid holds a low-paying, unskilled, and thankless job, but can hope to better herself. In Vietnam, she complained bitterly, society marks a maid as an inherently inferior person, and she can expect only a life of drudgery, twelve-hour work days, and severely limited social mobility.

Today, the Communists have replaced

one elite with another, but this same notion of hierarchy by family background, though now a matter of ideological commitment, still remains. As the new elite, Communist officials and their families occupy the best homes and have priority in acquiring education and good jobs. Communism, in broad outlines, became a mirror of the society it sought to topple.

The final impression we gathered as we traveled the breadth and width of Vietnam is that of a land of immense physical beauty and resources whose common people, by sharp contrast, face a brutality of everyday life. The concrete ills of hunger, disease, and despair weigh down a people of inherent resilience, ingenuity, and dedication to family. Ironically, the people of Vietnam find themselves in an economic and political no man's land. Since the Communist government in 1987 stopped meeting its responsibilities to provide universal higher education and health care—which subsequently

became the duty of each individual—the citizens of Vietnam have had to fend for themselves in a society that offers none of the alleged benefits of socialism nor the economic and political freedom of the western democracies.

The poorest and most helpless citizens suffer the most. The most daunting image we retain from our travels is that of the many double or triple amputees found throughout Vietnam. The most fortunate have a family capable of supporting them, while the rest are forced to beg. Cup in hand and unable to walk, Minh, the double amputee outside our hotel in Ho Chi Minh City, strove daily to pull himself—with his arms alone—up and down the block. He had no shirt, and his skin, no match for the cement of the street, showed the chafing and scars of years of begging.

Our Vietnamese friend's statement contains some truth; Vietnam is a society of distrust, the social and political origins of which are painfully clear. In a land of bribery, oppression, and mass poverty, few Vietnamese trust others outside their immediate family, even in trivial matters. But

what the future holds for Vietnam depends upon the willingness of this culture to free the vast majority of its people to realize their potentials and desires. Many intellectuals and businessmen in Vietnam expect the Communist government to collapse within three years, though it still holds a tight fist on the country. The old class system, in turn, as well as the historic disregard for the rule of law apart from privilege, will need to be modified or discarded if the Vietnamese, no longer a rose tossed by the storms of war and foreign domination, are to defy the perception of an unyielding, bitter fate and, thereby, to flower in the modern world. □

1. *The Tale of Kieu*, Nguyen Du. Translated by Huynh Sanh Thong (New York: Vintage Books, 1973).

2. *The World Almanac and Book of Facts*, 1993 (New York: World Almanac Publishing, 1992), pp. 811-813.

3. *Population Reports Supplement* (Baltimore: The Johns Hopkins University, 1992).

4. The population figure for 1975 is from *Collier's Encyclopedia*, Volume 23 (New York: Macmillan Publishing Co., 1987), p. 133.

5. Mr. Thuy is a pseudonym employed to protect the family's identity.

6. "Students and Girls in Vietnam seen Through Popular Songs," Le Hung Chuong. Published in *We, the Vietnamese*, edited by François Sully (New York: Praeger Publishers, 1971).

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BEANS, BOMBS, AND BUREAUCRATS

by James M. McCaffery

While traveling north from Quito, Ecuador, to the city of Tulcán on the Ecuadorian-Colombian border last summer, our jeep was stopped four times at road blocks where armed police checked us over. Impressed by such diligence, I commented to the driver, a lawyer who had invited me on this trip, that these searches must be a great help in stopping the smuggling of illegal guns, drugs, and explosives. He agreed, but said that the police were really looking for contraband. Surprised that I did not understand what "contraband" was, he explained: "You know, the usual: beans, rice, flour, cooking oil, and heating fuel." He added: "If they catch you with a sack of beans, you get thrown in jail and they confiscate your vehicle."

Therein lies the tale of how much of the poverty and hunger in the world today is a man-made phenomenon, a product of man's ideas rather than an act of God. German philosophy, the old saw goes, has done much more damage to the Russian people than the German army ever did.

The sad tale of how beans and heating oil became contraband is simple and all too common, although springing from different rationales. As for illicit beans, the politicians were following the common Third World custom of robbing farmers by imposing price and export controls on food in a

vain attempt to provide cheap and plentiful food to the politically powerful urban masses, including the bureaucrats themselves, who constantly increase the harshness of their methods in the face of obvious failure. This is contrasted with the equally silly and pernicious pattern of "advanced" countries such as Japan, France, and the United States, where politicians rob the urban workers by imposing bureaucratic controls to increase food prices to "protect" farmers from the realities of the market.

Thus, the Ecuadorian government, whose motto is, ironically, "Ecuador Exports," has forbidden the export of such staples as beans (in which production the country seems to have an obvious comparative advantage) to other countries, especially to Colombia, where such products fetch a much higher price on the free market, in the hope that such restrictions will lower the price in Ecuador and help enforce price controls. The consequences are exactly the opposite, since limiting the market for beans and controlling prices signal the farmers of Ecuador that they should reduce their production. Ecuador's comparative advantage is abolished by fiat, and economy of scale and the free market are no longer a factor in production. Previously law-abiding farmers and middlemen expend a great deal of time and effort smuggling their products across the border, thus becoming criminals in the eyes of their government and in the eyes of their countrymen who resent "their" beans

James M. McCaffery lives in New Orleans and his children attend French-language school.

being sold to foreigners. An unmentioned consequence of such stupidity is its contribution to the production of drugs. Peasant farmers who are constantly accused of being criminals for wanting to sell their produce at fair market price at home and abroad can hardly be blamed for ignoring similar charges for growing marijuana and coca.

Another irony is the praise given by the politicians to the rapidly expanding flower export industry, since many of those involved in the industry entered the business because it is not regulated by the government. While producing flowers for export is an honorable trade, many of those in the floral business would have remained in food production in a free market. Thus, the politician who brags about controlling prices may have changed the sack of beans that the free market would have produced into a corsage in Tokyo.

The second type of contraband is that of products subsidized by the government. Heating oil used in stoves is a prime example. The Ecuadorian government sells such fuel at about four cents a gallon to the poor, well below the production and distribution costs, while the free market price in Colombia is about twenty times higher. Again, the result is predictable. Up to a third of this oil is directly exported illegally with great profit for all but the poor. Yet many of the poor who do get to buy the cheap oil (often after waiting many hours in line) also act rationally. Rather than using this fuel to cook their food, they sell it at a profit to middlemen who export it. Thus, in a serpentine, byzantine irony, the poor do benefit in some small way as cooking fuel becomes selling fuel. However, the government's loss on such transactions aggravates the nation's raging inflation as the state must print money promiscuously to pay for this extravagance, an inflation that bears down on the poor disproportionately.

On the Beach, a Free Market Thrives

Remarkably, while vacationing on the Pacific coast of Ecuador, I found a classic

example of how ordinary people under a free market make decisions which lead to gain for all concerned. While we were living on the coast, my only job was to walk down to the beach early every morning to await the arrival of the local fishermen with the night's catch to be purchased for our lunch and dinner. We buyers were a mixed lot: cooks from the restaurants that dot the beach, housewives, Ecuadorian tourists, along with a gringo or two, and a few local fish jobbers. Most of the fish were sold right there on the beach in a relatively short time at a price that all found acceptable after a little good-natured haggling. Everyone's admonition to the fishermen not to cheat the gringo seemed unnecessary. A foreigner with a little extra money might keep the market price up.

I also noticed that each boat, no matter how small, had an ice chest which remained closed until a man on a motorbike with a larger ice chest on the rear seat arrived on the beach. This was the shrimp monger who came to buy the "selling shrimp," those huge prawns that are so prized in the Orient. The fishermen used to eat these themselves or use them as bait until the buyer on the bike started passing by every morning paying about 70 cents per prawn, an incredible sum for these poor men. Just a few of these prawns would make a night's fishing worthwhile. The men readily agreed they were very fortunate indeed that the Japanese palate craves prawns and that the Japanese budget allows their taste buds to be indulged.

Of course, all of this was made possible by the man on the bike. He had been an ordinary fish jobber until he realized that there was a good market for fresh prawns at the airport in Esmeraldas up the coast. So he put an ice chest on his motorbike and began traveling up and down a five-mile stretch of beach every morning buying large fresh prawns as the boats came back to shore. And, of course, once the fishermen realized that they had a reliable buyer who would pay a good price for the prawns, they began taking ice chests to sea to protect and preserve these valuable goods.

The buyer on the bike told me that he rushed to the market at Esmeraldas as soon as he finished his route, making more trips as needed if the fishermen had a particularly good night. He sold the prawns with a 30 percent or so markup to willing buyers who immediately flew them to the Orient. This resulted in a gain for all, the natural result of a free market.

In this picturesque scene another loss of wealth due to political meddling in the economy is not obvious. All of the fishing boats on the beach in question were sail-boats and rowboats, perhaps not as efficient as motorboats. The fishermen agreed that they would do much better with motors, but there were problems beyond their control that precluded adding power. The main problem was getting fuel since this was a governmental monopoly. There were no conveniently located (and privately owned) gas stations on every corner and open all hours as there are in the United States. The governmental monopoly meant that the men would have to travel to the nearest gas station hoping that fuel would be available (often it was not). Thus, motorizing would make them dependent on a government that had proven itself incompetent in almost everything it touched. Oars and sails made them free; motors would enslave them.

However, there is a looming threat to these free men and their families. First, a little background information is needed. As far as I can tell from a rather superficial study of the problem, the discovery of oil has been a curse to the people of Ecuador, especially since the nation became part of the oil cartel OPEC. Rather than husband and invest the windfall from the oil boom, Ecuador's politicians went on a spending frenzy by borrowing a huge amount of money immediately, using future oil revenues as collateral. The money, squandered on socialist schemes, has vanished. A huge debt and raging inflation remain. They, like

the widespread hunger and poverty, are the effects of human action. Ecuador continues to suffer from an excess of civil government and a shortage of self-government.

Until recently the main job of this bureaucracy was to forbid the export of bananas unless the buyers were willing to pay more than the market price (to protect the growers who were content to sell at market price). Needless to say, mounds of bananas rotting on the docks eventually brought the bureaucrats back to reality after great suffering to the workers and growers.

The problem came to a head recently when the entire industry was threatened by a devastating fungus that would quickly destroy the nation's total crop if immediate action were not taken. However, the bureaucracy announced that it would take at least a year to reach a decision in this matter. It took a Presidential decree to save the industry, much to the chagrin of the banana bureaucrats—who saw their power being eroded.

Given this background, I told the fishermen that I was surprised to read that some fishermen were demanding a government ministry to regulate their industry and market fish. The uneducated, probably illiterate, men laughed and said that this was obviously a ploy by the politicians in the capital to provide more political sinecures. An old man asked if anyone thought that any government employee would come down the beach every morning buying prawns at a good price. Nobody did. The consensus was that the government would make them take their catch, especially the prawns, to a government market in the city, where they would get little money and lots of patriotic speeches. These rude men knew more about socialism than most economists. Those who profess to help the poor people should begin by speaking with them. They have a lot to say. But governments that purport to speak for the people rarely speak to the people. □

OPERATION SMILE

by D.K. Brainard

Eugenia Pop bursts into tears as the men lead her daughter away. But while there is fear in her eyes, Eugenia's tears are tears of hope. Twelve-year-old Carmen is about to undergo reconstructive facial surgery at the hands of a visiting team of American surgeons at Budimex Hospital in Bucharest, Romania.

For the doctors of Operation Smile International, a group that has been taking its medical expertise to children around the globe since 1982, the three-hour operation to repair Carmen's face will be routine. But for Carmen and her mother, Operation Smile is an answer to prayer after a decade of seeking treatment under Romania's centralized health care system.

Carmen Pop was only 11 months old when a rare disease attacked the right side of her face and left an ugly hole in her nose and upper lip. After two operations at the age of 3 were less than successful, she was dismissed as untreatable by doctors in the small border city of Arad where she was born.

For the next decade, Eugenia and her husband Vasile exhausted all of their resources trying to find someone who could help their daughter. They tried petitioning the government; Carmen was placed on a priority list at the Health Ministry in Bucharest, but the years passed and nothing more was done.

In 1989, a church medical group in Arad raised enough money to send Carmen to a hospital in Germany where she could be treated by expert plastic surgeons. But the

D.K. Brainard is a student at Hillsdale College in Hillsdale, Michigan.

Romanian government refused to grant the Pops a temporary travel visa.

Then, soon after the December 1989 revolution that swept strongman dictator Nicolae Ceausescu from power, a visiting American physician stumbled across Carmen and referred her to a doctor in Bucharest. The field director for an American humanitarian organization, Dr. Solbritt Murphy was instrumental in securing permission for Operation Smile to set up shop at Budimex, where they would spend ten days performing free surgery on deformed children.

"All these years we had hope in God that Carmen could get treatment in a Western country," Eugenia says through her tears. "We hope that God has finally looked upon us."

Unlike many other Romanian children whose only hope for a cure lies in the hands of foreign volunteers, Carmen Pop's ordeal is uncommon because it will have a happy ending. Three years after the bloody Christmas revolution that promised an end to the totalitarian era, Romania's national health care system still teeters on the brink of total collapse. As AIDS and other epidemics ravage the nation's young, Romanian physicians have their hands tied by a lack of manpower and supplies.

When Nicolae Ceausescu seized power in 1978, Romania could boast about 1,000 trained surgeons. But by 1990, "they had 500 trained surgeons left for a population of 23 million," says Dr. Murphy. "He discontinued training for virtually all human services." Bucharest's sole nursing school graduates 400 nurses each year, while one prominent pediatric surgeon estimates that

hospitals in Romania have a collective shortage of 7,000 nurses.

The list of essential supplies that Romanian doctors do without is seemingly endless—from modern technology like X-ray machines and anesthesia monitors to simple items like surgical gloves, compresses, and hypodermic needles.

The Health Ministry's Paralyzing Grip

While American politicians from both parties clamor for a federally regulated national health care system in the United States, it is worth noting that Romanian physicians blame much of the malaise that grips the medical profession in their country on 50 years of Communist central planning.

Romania is obviously an extreme example of the ills of socialized medicine; the demise of the Romanian health care system was greatly exacerbated by the bizarre totalitarian policies of the Ceausescu regime. But a look at just how bad things have become there should be enough to remind us that any move away from a free market approach and toward a centralized system will prove detrimental to the quality of medical care available to the consumer.

For the first time in a half century, Romanian doctors enjoy the freedom to speak without fear about the counterproductive and often destructive nature of the system they have labored under for so long. Their observations are frank, angry, and urgent, propelled by the frustration of years of enforced silence.

Dr. Nicolae Dirina, director of Budimex Hospital, is playing host to Operation Smile while the team is in Bucharest. Dirina pulls no punches when discussing his country's predicament.

"The Health Ministry still organizes everything," says Dirina. "We don't need different employers from the Ministry of Health to tell us what to do."

Dirina says that since the revolution, he has often been offered special deals from Western medical supply companies eager to do business in Romania. "They say if we

will buy something—anything—from them at a reduced rate, they will give us presents, machines, and other things we desperately need," he says.

But the budget for his hospital is administered by the Health Ministry and Dirina says he doesn't know how much, if any, money he will receive each week. "It's not enough to buy even needles," he says sadly.

Romanian doctors blame epidemic levels of AIDS and other diseases, especially among the young, on the fact that doctors are often forced to re-use dirty syringes. "In your country you use it once and throw it away," says Dirina heatedly. "We sterilize it and use it again and again and again."

Budimex Hospital squats along a dirty street on the north side of Bucharest, sandwiched between rows of crumbling tenements that stretch nearly half a mile in either direction. Despite the squalor of its surroundings, Budimex is the largest and most respected pediatric hospital in Romania and is the leading center for surgical training in the country.

"Things are worse in all other hospitals in Romania," says Dirina.

Mike Erricos, an orthopedic surgeon at Cornell University's North Shore Orthopedic Hospital, is on his first Operation Smile mission. Erricos is appalled at the conditions under which the Romanian doctors are forced to operate. The Romanian government "eliminated all knowledge in 1978," he says. "They consciously put themselves back in the Stone Age."

Dirina's Romanian protégé, Dr. Sebastian Ionescu, says it is inevitable that the quality of medical care will decline under a system which offers no incentive for good performance and requires doctors and nurses to work for low pay (doctors earn about US\$30 per month, about the same as the average government employee) in primitive conditions, their hands bound firmly with red tape.

In fact, Dirina says, every facet of a doctor's professional life is controlled by the Health Ministry. Doctors are often not allowed to choose the field in which they wish to specialize and managers are forced to work with whomever they are sent by the govern-

ment, rather than being allowed to recruit and train outstanding young physicians.

As a result, many doctors still practice medicine the same way they did a half-century ago, unmotivated to sharpen their skills and unreceptive to surgical advances and innovative practices, Ionescu says.

Erricos stumbled across the fruits of this kind of thinking when he noticed that many young children in Romania are afflicted with a peculiar deformity that causes their knees to stick permanently in the wrong position. After doing some investigating, he discovered that many Romanian physicians treat malnourished infants by injecting their thighs with massive vitamin doses.

Since the children's legs are not developed enough to support the injections, the shots often cause irreversible nerve damage, crippling the children for life.

"These kids are malnourished," says Erricos. "The Romanians seem to think malnutrition is a disease and they try to treat it with vitamins. I am knocked over by the number of cases I am seeing."

"This is not malicious. This is ignorance."

Dirina says doctors administer the injections because they cannot afford to buy oral or intravenous drugs. "We were obliged to administer these drugs intramuscularly and this problem will continue until we have those [alternative] drugs," he says.

But Ionescu says that even when modern treatments do become available, doctors often will not use them because they are too proud or lazy to change their ways. "I can tell you if I am honest that things are continuing the same way in this hospital," he says, shrugging his shoulders. "So [the children] will be handicapped."

Exporting the American Dream

Contrasting the attitude of resignation shared by these Romanian doctors with the energy and optimism of Operation Smile founder William Magee throws into relief the ideological differences between the free market system and socialized medicine. While the Romanians have spent their careers fighting past barriers erected by their

own government, Magee has enjoyed the freedom and the means to spend the last decade bringing miracles to children like Carmen Pop. In essence, exporting the American Dream.

The seed that would blossom into Operation Smile was sown back in 1981 on a commercial airliner somewhere between the Philippines and Norfolk, Virginia, where Magee operates a successful practice as a plastic surgeon.

Magee and his wife Kathy, a clinical nurse, had been invited to the Philippines by a friend for a week of surgery on children with cleft lips and palates. The family accepted the invitation, unsure of what to expect from the trip. What they found was a ragged army of children with facial deformities thronging the team's base hospital, hoping for a chance to be seen by the American doctors.

When the week was up, Bill Magee recalls, he and his friends had operated on more than 100 children. Yet they had to turn 200 more away. Touched by the incredible need and openness of the Filipinos they met, the Magees decided on the airplane home that one trip was not enough; like General MacArthur, they vowed to return and help those they were forced to leave behind. In the next two years, the family flew back to the islands twice, each time asking friends and friends of friends to come along and help.

In 1982, the Magees officially christened their work Operation Smile International (OSI) symbolizing the sunshine their efforts brought to the faces of the deformed children they treated. Since then, more than 1,200 doctors and health care professionals have joined the Magees as OSI volunteers, treating more than 4,000 children in countries as diverse and far afield as China, Liberia, Colombia, and Vietnam.

In effect, Operation Smile represents the surplus of the American system. While the organization occasionally receives government grants, it gathers most of its \$2 million annual operating budget from individual and corporate contributors. (According to OSI documentation, government contributions accounted for five percent of the fiscal 1990

budget and zero percent of the fiscal 1991 budget.)

In addition, each OSI volunteer is required to help pay for his or her trip and to help collect supplies that will be used on the expedition. And the giving of these volunteers is not limited to the occasional relief trip. In 1991, OSI doctors treated more than 2,900 American children for free.

Dr. Frank Yeiser, a veteran of six Operation Smile missions and a longtime friend of the Magees, sums up the attitude that has made the organization so successful. "If you tell me it can't be done, that's the wrong answer," he says.

The can-do attitude of the American doctors quickly becomes apparent at Budimex. Team co-leaders Yeiser and Dr. Thomas Lawrence had planned to devote the bulk of their time to surgery on children culled from the infamous state orphanage system. But because of bureaucratic bungling, only about half the expected number of orphans has arrived at a pre-surgery screening session.

The American team reacts quickly, sending word through the hospital and a network of American and French relief workers that they have room for more children. Volunteers are sent into outlying villages to search for potential surgery candidates.

One child who turns up in the dragnet is three-year-old Cristian Ispasioana, a tow-headed boy with a cleft palate. Cristian's mother is astounded that the American surgeons would actually seek out children to operate on.

"How can a U.S. man have the pleasure to operate on Romanian children for free?" she asks through an interpreter. Upon meeting members of the team, her joy deepens. "I am very happy with the American doctors," she says. "Romanian doctors don't play with the children. The Americans are more happy and they speak differently to the children."

The difference in attitude between the Americans and their Romanian counterparts is glaringly obvious. While the Romanians are competent and eager to help out around the operating tables, many of the older doctors exude a palpable sense of

disillusionment. Their eyes have the flatness of those who have been disappointed too often to gamble on hope again.

"I get the feeling the Romanian physicians feel very frustrated because they have been left out of the medical mainstream," says Lawrence, whose day job is overseeing the University of North Carolina's Plastic Surgeon Training Program. "I think the greatest effect we can have here is letting people know that we care."

Magee concurs. "The Romanian people, as I see it, need an uplift," he says. "If we can be the spark that gets a [medical] revolution going, then we have done what we wanted to do."

Rebuilding Through Private Effort

While much of the Romanian medical corps has gone limp under the straitjacket of the Health Ministry, there are doctors who have struggled against the system and the mediocrity it breeds, brilliant surgeons like Ionescu, who has campaigned publicly for privatization of the health care system despite the fear of reprisals by the state.

And there are stalwarts like Alexandru Pesamosca, 63, President of the Romanian Pediatric Surgical Society. A large, energetic man, Pesamosca has personally trained many of Romania's pediatric surgeons. The most renowned physician in the country, Pesamosca has remained true to his own standard of excellence despite a lifetime of professional adversity.

But in a system that strives for mediocrity, excellence demands sacrifice. Until the revolution, Romanian doctors were discouraged from attending Western medical conferences and were taxed so heavily on foreign medical texts that knowledge of modern medical advances was almost inaccessible. But Pesamosca is fond of recalling how he once disdained government regulations to attend a symposium in Vienna, Austria, forced to travel with only a ham sandwich and the equivalent of two U.S. dollars in his pockets.

For years Pesamosca has dreamed of



ROBBIE CHAPMAN

American and Romanian doctors work together at the operating table.

building a modern pediatric hospital on the grounds of Budimex. Although it seems to him that the U.S. \$50 million it would take to build the complex might as well be lodged on the moon, Pesamosca refuses to abandon hope, using the looser atmosphere of the post-Ceausescu era to seek help from U.S. and European medical supply companies.

Fifty years of central planning has endowed the Romanians with a keen distrust of government. Although the Bush administration gave Romania \$64 million in foreign aid in 1990, Dirina says that his government would rather spend the money on military equipment than on needles or X-ray machines.

When the Romanian government receives aid earmarked for medical relief, Dirina says, the hard currency goes into the coffers of the Health Ministry. But when the Health Ministry doles out funds to his hospital, it is invariably in Romanian *lei*, which is practically useless on the international market.

With recent elections bringing the country closer to a non-Communist coalition government, the Romanians sense a wind of change stirring over the horizon. But the doctors know that here, as in other former Eastern-bloc countries struggling to throw off the mantle of Communism, things could get much worse before they start getting better.

In fact, the belt-tightening has already begun. In 1991, the ruling Council for National Salvation announced 30 percent

across-the-board staffing cuts in all health services.

So for the future, doctors say the best cure for their ailing hospitals, clinics, and orphanages will be the efforts of private groups like OSI and the volunteerism of people like Bill Magee, Frank Yeiser, and Tom Lawrence.

"In my country we have a proverb," Pesamosca says of life under Communism. "We expect the Americans to come at the first and the fifteenth of the month. I think now it is necessary to change what is a very difficult situation. To change, it is necessary that you are here."

Operation Smile's ten days at Budimex will not be the organization's sole contribution to the healing process. OSI is helping to sponsor a team of physical therapists who will rotate on six-month shifts, working with Solbrritt Murphy to rehabilitate disabled orphans. But like their hosts, Operation Smile doctors look forward to the day when Romanian physicians will no longer be the orphans of the European medical community. "We'd like that," says Yeiser. "The ideal goal would be to put yourself out of business."

In the meantime, Operation Smile will continue to prove—both at home and abroad—that the most effective charity is not coerced by governments but is freely given by individuals. In the words of Tom Lawrence, "To repair a small child's deformed face is to give that child a special freedom. And that is what America and Americans are all about." □

THE QUESTION STILL LIVES

by Stephen Cain

After the first battle of Bull Run in 1861, Confederate President Jefferson Davis rode out to find a young relative who had been wounded and was reportedly sinking fast. After traveling many miles and witnessing painful scenes, but seldom finding the Confederate troops in the positions where his guide thought they would be, Davis decided to abandon his search.

Just as night approached, he accidentally met an officer of the relative's unit and was directed to the temporary hospital to which the wounded of that command had been removed. It was too late. The young relative had died just before Davis arrived. Only the boy's corpse lay before the Confederate president.

All around lay other young men suffering in different degrees from the wounds they had received at Bull Run. Davis tried to console them as best he could. He expressed sympathy to one bright, refined-looking youth from South Carolina, who appeared to be severely if not fatally wounded. The youth responded with what well might have been his last words: "It's sweet to die for such a cause."

Today, 132 years later, historians still debate what exactly the "cause" was that the South Carolina boy died for.

It is implausible that the boy so deeply believed that slavery was such a wonderful

thing that he was proud to lay down his life for it. Confederate General Joseph E. Johnston wrote in his *Narrative of Military Operations During the Civil War* that the laboring "class, in the Confederacy as in all other countries, formed the body of the army." Most Confederate soldiers were common people who did not own slaves or were too poor to have a vested interest in slavery. These men more likely fought and died for the reason given by the man most remembered for the burning of Atlanta, Union General William T. Sherman, in his *Memoirs*: "I always acted on the supposition that we were an invading army."

Abraham Lincoln himself denied repeatedly that slavery was the issue in the Civil War. In his 1861 inaugural address, Lincoln said "I have no purpose, directly or indirectly, to interfere with the institution of slavery in the states where it exists. I believe I have no lawful right to do so, and I have no inclination to do so."

In any case, Confederate President Davis, who to his dying day long after the Civil War remained an "unreconstructed" rebel, insisted that the central issues under contention were limited federal government and the right of a free people to withdraw from a union they had voluntarily entered ("compact" as he called it) when it no longer served their purposes, much as the Soviet republics have done in recent times.

Davis asserted that "the government of the United States broke through all the

Stephen Cain is a free-lance historian and author who currently resides in Thailand.

limits fixed for the exercise of the powers with which it had been endowed, and, to accomplish its own will, assumed, under the pleas of necessity, powers unwritten and unknown in the Constitution, that it might thereby proceed to the extremity of subjugation." If Davis were alive today, he might pose some interesting questions by way of comparison with Civil War times: If Quebec votes to separate from Canada, would the rest of Canada be justified in making war on Quebec to force it to rejoin Canada? If Scotland secedes from Great Britain, which is entirely possible, should Scotland be invaded and forced at gunpoint to rejoin Britain on Britain's terms?

One of Davis' favorite quotations was the Tenth Amendment to the U.S. Constitution: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

The Confederate president begrudgingly admitted losing the Civil War on the battle-fields: "We have laid aside our swords; we have ceased our hostility; we have conceded the physical strength of the Northern states."

"But the question still lives," wrote Davis after the war. "The contest is not over, the strife is not ended. It has only entered on a new and enlarged arena. The champions of constitutional liberty must spring to the struggle . . . until the government of the United States is brought back to its constitutional limits."

Constitution of the C.S.A.

Although the Confederate government in practice ended up being far from a model of either efficient management or sound economic policy, the *written* basis of the alliance at least, the Confederate Constitution, embodied some ideas still relevant even today.

The permanent Constitution of the Confederate States, adopted on March 11, 1861, was mostly taken verbatim from the U.S. Constitution, with the words "Confederate States" substituted for "United States."

The preambles to both use very similar language. The words "We the people of the United States," in one, are replaced by "We, the people of the Confederate States," in the other; another clause, "each State acting in its sovereign and independent character" is added in the Confederate preamble. Both Constitutions comprise seven Articles, but the Confederates incorporated within them the 12 Amendments that had been made to the U.S. Constitution as of 1861 (including the first ten that are known as the Bill of Rights).

The New York Herald of March 19, 1861, wrote: "The new Constitution is the Constitution of the United States with various modifications and some very important and most desirable improvements. We are free to say that the invaluable reforms enumerated should be adopted by the United States, with or without a reunion of the seceded States, and as soon as possible."

The official term of the Confederate president was fixed at six instead of four years, as in the original draft of the U.S. Constitution of 1787. A one-term limit applied; he could not be re-elected.

The Confederate Constitution promoted free trade by prohibiting protective duties levied for the benefit of any particular industry, which practice had previously been a source of trouble for the U.S. government. (Unfortunately, a free trade policy does one no good if one's ports are blockaded. Lincoln ordered a blockade of Southern ports on April 19, 1861, and it became increasingly effective as the war wore on.)

The cost overruns that have plagued U.S. government contracts in recent decades were simply outlawed in plain language in the Confederate Constitution: "Congress shall grant no extra compensation to any public contractor, officer, agent, or servant, after such contract shall have been made or such service rendered." How much could those words have saved U.S. taxpayers had they been in effect since 1861?

The Confederate president was authorized to approve any one appropriation and disapprove any other in the same bill—what is today called the line-item veto—which

authority Presidents Reagan and Bush have strongly advocated.

"To establish post offices" was written into both constitutions, but the Confederates added, "but the expenses of the Post-office Department, after the first day of March, in the year of our Lord, eighteen hundred and sixty-three, shall be paid out of its own revenues."

The importation of slaves was forbidden in the Confederate Constitution, except from the other states still belonging to the United States.

Section Eight of the very first Article in the U.S. Constitution lists the powers delegated to Congress. Although the word "welfare" did not have the same connotation it often carries today—there were no "welfare payments" in 1861—it is curious to note that the Confederates eliminated the word from both Section Eight and the preamble. Instead of "To lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States," the Confederates gave their Congress the power "To lay and collect taxes, duties, imposts, and excises, for revenue necessary to pay the debts, provide for the common defense, and carry on the Government of the Confederate States."

In the years before the Civil War, some Southern representatives in the U.S. Congress had argued that it was unconstitutional for Congress to make appropriations from the common treasury of the United States to pay for local improvements, which would commonly represent political gains for local politicians as well. The Southerners resented what they saw as the mass of such appropriations going to projects in Northern states. The framers of the Confederate Constitution thus sought to rule out "pork barrel" spending by stipulating that no "clause contained in the Constitution shall ever be construed to delegate the power to Congress to appropriate money for any internal improvement intended to facilitate commerce; except for the purpose of furnishing lights, beacons, and buoys, and other aid to navigation upon the coasts, and

the improvement of harbors, and the removing of obstructions in river navigation, in all which cases, such duties shall be laid on the navigation facilitated thereby, as may be necessary to pay the costs."

A Confederate provision that was ahead of its time is one that perhaps only law librarians and researchers could fully appreciate:

"Every law, or resolution having the force of law, shall relate to but one subject, and that shall be expressed in the title."

While the Confederate Constitution has today become little more than a curiosity from a bygone age, the best news of all is that . . .

The U.S. Constitution Still Lives!

Come election time, it is edifying to observe how many candidates for re-election seem to remember suddenly that there is such a thing as a U.S. Constitution. It's a dead giveaway when a candidate begins using words that voters have not heard him or her use for the past two (or four or six) years: "reduced spending and taxes"; "free trade"; "justice"; "reduced federal interference in our lives"; "law and order"; "the American dream."

A U.S. president, as spelled out in the Constitution, takes an oath to "preserve, protect and defend the Constitution of the United States." But just as World War II General George Patton allegedly read his Bible every day, all elected representatives of the people might do well to "preserve, protect, defend, and *read* the Constitution of the United States" every day. After all, there are only seven original articles, plus the amendments.

With an informed electorate committed to individual responsibility in a free society, it may yet one day be possible to have a president, senators, and representatives, who, to the best of their ability, work to establish justice, ensure domestic tranquility, provide for the common defense, promote the general welfare, secure the blessings of liberty to ourselves and our posterity, and *nothing else*. □

BOOKS

Rubbish! The Archaeology of Garbage
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 HarperCollins Publishers, Inc., 1992 • 250
 pages • \$23.00

Reviewed by Jeff A. Taylor

In 1990 a Roper Poll asked respondents to name products which caused major garbage disposal problems in the United States. Disposable diapers were named by 41 percent as a big garbage headache—an altogether reasonable guess given the amount of attention diapers had received by the media. The problem is that in reality disposable diapers take up only 3 percent of landfill space and are in many ways an environmental improvement over cloth diapers.

If not for the work of the University of Arizona Garbage Project, such misconceptions would enjoy even wider currency. William Rathje and Cullen Murphy tell the fascinating story of the Garbage Project, which Professor Rathje has overseen for 20 years and through 28,000 pounds of garbage excavations. By bringing the cold rationality of archeology to bear in the modern landfill, the Garbage Project has demolished many myths about garbage and unearthed important ancient truths about human society.

A major victim of the facts turns out to be the crisis mentality which has characterized public debate on the subject in recent years. Rathje and Murphy combine the Garbage Project's newly gleaned information with knowledge of pre-industrial societies to put the concern over waste disposal into a true historical context. The result is compelling evidence that civilization and garbage go hand in hand and that garbage problems are certainly nothing new.

Rathje and Murphy point out that the pre-Columbian Maya likely suffered through periodic methane explosions at their open waste pits. As some items became scarce,

they also learned to recycle various bits of ornamentation and building materials. Rathje and Murphy also believe that the history of the Maya and other ancient peoples shows the same pattern of garbage generation: "Over time, grand civilizations seem to have moved from efficient scavenging to conspicuous consumption and then back again to the scavenger's efficiency. It is a common story, usually driven by economic realities." The developed world in general, and America in particular, are seen by Rathje and Murphy as moving back into scavenger mode after a stint of conspicuous consumption.

The authors also take a shot at those who believe modern society has developed an altogether new and environmentally devastating "throw-away" mentality. They compare today's fast-food styrene "clamshells" with clay bowls from ancient Iraq which appear to have been produced with a single-use lifetime in mind. They even speculate on the amount of waste generated if the 5,000-year-old bowls were used as hamburger containers and conclude that in this respect, at least, the new idea is the better one.

But Rathje and Murphy are careful not to posit a technological solution to all garbage problems. They stick to the garbage facts and are not utopians. While noting the contribution at-home garbage disposals have made to the reduction of wet garbage, they do not foresee a new "magic bullet" which will reduce the remaining types of garbage. They do, however, note the potential of new waste-to-energy plants like SEMASS, located in Rochester, Massachusetts. A consortium of five private firms runs the SEMASS facility which produces fewer emissions than conventional power plants. Employing such new technologies while making a careful cost-benefit analysis of their impact is about all we can hope—and need—to do.

Rathje and Murphy single out one important and often overlooked benefit which comes from the effect packaging—be it paper, styrene, or plastic—has on food waste. By comparing garbage produced in Mexico City with that found in Tucson,

Milwaukee, and California's Marin County, the Garbage Project found that because of the much-maligned packaging "U.S. households, on average, produce a third less garbage than do households in Mexico City." Then there are the cost savings produced by ever-lighter forms of plastic packaging—a development so overlooked that Rathje and Murphy dub plastic "the Great Satan of garbage" because of the fervent misconceptions about plastic's role in the waste stream. Rathje and Murphy correctly note that it has been "sheer profit," not government edict which has spurred the adoption of these new materials.

While the effect of plastic throw-aways is constantly overestimated, Rathje and Murphy note that paper is rarely cited as the garbage problem that it is. Ninety-four percent of the Roper Poll respondents who found disposable diapers such a threat failed to view paper as a garbage problem. This although paper products take up 40 percent of all U.S. landfill space. The paper glut has also helped to fuel what Rathje and Murphy see as sometimes misguided recycling efforts.

Thanks to apocalyptic tomes like the Club of Rome's *Limits to Growth* (1972), Rathje and Murphy note that "[r]ecycling has been embraced by some with an almost religious intensity." This fervor results in collecting and hoarding materials which can never be recycled because there is no market demand for them. The City of Seattle's much praised recycling program, for example, ends up shipping tons of newspapers to Asia in response to market demand.

In turn, state and local governments have tried to "stimulate" the U.S. market for recycled paper by passing laws mandating recycled paper's use by government agencies. More directly, some groups are pressing Congress for mandatory recycled content legislation (in effect a virgin-paper ban) to force publishers to use recycled newsprint. Rathje and Murphy have little enthusiasm for such approaches, calling them mostly "symbolic."

But while Rathje and Murphy see the futility of banning some products, their

wholly pragmatic belief in using monetary incentives to change behavior invites more government meddling in the waste stream. Although they may have in mind "simple tinkering with fees," recyclers and waste disposal firms are already thinking of special investment tax credits and government-backed loan guarantees for their endeavors.

However, in fairness to Rathje and Murphy, they did not set out to find ways to get government out of the garbage disposal business. Instead, they have done us the great service of proving that the garbage doomsayers have been talking trash for years. □

Jeff Taylor is National Political Reporter for syndicated columnists Evans and Novak in Washington, D.C.

Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector from Schoolhouse to Statehouse, City Hall to the Pentagon

by David Osborne and Ted Gaebler
Addison-Wesley Publishing Company, Inc.,
Reading, MA 01867, 1992 • 405 pages • \$22.95

Reviewed by T. Franklin Harris, Jr.

The search for a "third way" somewhere between socialism and capitalism is to the modern era what the search for the philosopher's stone was to the Dark Ages. Although the implosion of the Soviet Union has put a damper on calls for more bureaucracy, most people harbor various misconceptions and fallacies that make them equally distrustful of fully free markets. So, yet another pair of would-be alchemists has set out in search of that elusive goal—big-government order without the big government.

In *Reinventing Government*, David Osborne and Ted Gaebler attempt to chart a course between big government and laissez faire. They want nothing to do with "ideology." Rather, Osborne and Gaebler are

technocrats in search of pragmatic answers. "*Reinventing Government*," they write, "addresses *how* governments work, not *what* governments do." Thus, from the standpoint of what governments do, the book is a proverbial grab bag of policy prescriptions—some good, some bad.

In the course of the book's eleven chapters, Osborne and Gaebler lay the foundations for what they call "entrepreneurial government." That is, government that is active, but bereft of bureaucracy and its attendant red tape and inefficiency. In Osborne and Gaebler's paradigm, the problems that America presently faces are all a result of the reforms of the Progressive Era. The large bureaucracies set up to discourage corruption and abuses of power actually waste more resources through regulations and procedures than they save. To stop a small number of crooks, bureaucracy must tie the hands of honest employees.

Osborne and Gaebler outline a series of sweeping reforms, all aimed at changing the entire focus of government. The old way of thinking envisions a government that identifies problems and then introduces an agency or program to solve the problem. The result has been a plethora of large bureaucracies and programs targeted at specific problems but achieving no real success. Entrepreneurial government identifies broad social goals. Instead of being burdened with hierarchies and rules, agencies are allowed great leeway within which to meet the goals. The civil service system is replaced with a system that rewards innovation and holds employees responsible for failure to meet goals.

Old methods of budgeting are scrapped. The line-item budget does not permit innovation nor the flexibility needed to deal with the unforeseen. Furthermore, the practice of throwing more money into programs that do not work must end. Such a policy encourages failure. Instead, programs that succeed will be rewarded with the funds to expand. Programs that fail can be weeded out over time.

The purpose of government, Osborne and

Gaebler contend, is not actually to deliver services, but to set policy. They call it steering rather than rowing. In order to deliver services, governments can contract out to private providers, utilize government providers in competition with private firms, or utilize different government firms in competition with each other. Only in the case of so-called natural monopolies—such as utilities—should government be the sole provider.

Osborne and Gaebler provide anecdotal evidence of the success of "entrepreneurial government." For example, in Phoenix, Arizona, the city-owned garbage collection firm competes on an equal footing with several private firms. The result has been a decrease of 4.5 percent a year in solid-waste costs.

Another example is the East Harlem school system. East Harlem, thanks to a system of public school choice, has some of the most successful public schools in America. This is despite the dire economic conditions that prevail in the district. Students can choose between different schools (some located within the same building) operating independently, with programs tailored to meet the tastes of different students. Osborne and Gaebler seek a decentralized government, with control of programs exercised at the lowest possible level. In the Kenilworth-Parkside development in Washington, D.C., the residents were given control over their own housing project. They wrote their own by-laws and took charge of making repairs. Eventually, the residents started their own adult education program and created a fund to help finance business ventures taken on by enterprising residents.

When it replaces the bureaucracies of old, "entrepreneurial government" is indeed an improvement. Still, the effects must be temporary. "Entrepreneurial government" can only delay the inevitable. Most "entrepreneurial government" schemes still leave a gap between those who consume a service and those who pay for it. The costs are spread over a broad tax base. Only specific groups, however, actually receive the service. Thus, the "customers" are partially

subsidized by non-customers. The result is that the demand for the service is greater than it would be if the customers had to pay the full price. The public good is inevitably overproduced and resources misallocated.

Of course, "entrepreneurial government" is even worse when applied to areas already relatively free of government intervention. "Entrepreneurial government" seeks to "structure" the market. As Osborne and Gaebler note, structuring "is a way of using public leverage to shape private decisions to achieve collective goals. It is a classic method of entrepreneurial governance: active government without bureaucratic government."

The problem with Osborne and Gaebler's analysis is its short-sighted empirical framework. In their preoccupation with finding whatever solution will "work," they ignore basic principles of how human beings behave and how markets operate. When policy planners structure the market, they change the incentive system. Resources flow into

areas in which they otherwise would not. The planners only have two choices: They can send resources to where *they* think they are needed, or they can send resources to where already overestimated customer demand is greatest. In either case, inefficiency will result. Even with the political reforms Osborne and Gaebler mention (campaign finance reform, term limits, etc.), decisions concerning resource allocation will still be politically motivated—not economically motivated.

Economic intervention, whether performed by a bureaucracy or an "entrepreneurial government" will always result in inefficiency. Osborne and Gaebler's attempt to make entrepreneurial government an end rather than a means is misguided. Bureaucracy is not the problem. *Government intervention* is the problem. *Laissez faire* is the solution. □

T. Franklin Harris, Jr., resides in Auburn, Alabama, and is a contributing editor to Republican Liberty.

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JUNE
1993
VOL. 43
NO. 6

THE FREEMAN

IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$25.00 or more receive a subscription to *The Freeman*. Additional copies of single issues of *The Freeman* are \$2.00. For foreign delivery, a donation of \$40.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available on microfilm and CD-ROM from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. A computer diskette containing the articles from this month's issue is available from FEE for \$10.00; specify either 3½" or 5¼" format.

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PERSPECTIVE

Advice to Youth Seeking to Go Down in History— from the Editors of *Time*

Last fall, *Time* magazine put out a special issue on "The Millennium," a survey of the history of the past one thousand years. Among the offerings is a list of the ten "Greatest People" of this entire period. The list comes as something of a surprise, when placed alongside *Time's* weekly editions. In their regular coverage, the editors dwell on political leaders, on the comings and goings of senators, presidents, and prime ministers. To the impressionable, this attention might suggest that politics is the most important thing in the world, and that rising high in government is the path to greatness.

Significantly, even *Time's* own editors don't seem to believe that. In identifying greatness, they virtually ignored politicians. Instead, they picked religious figures (St. Francis of Assisi, Martin Luther), scientists (Galileo, Albert Einstein), artists (Michelangelo, William Shakespeare, Wolfgang Amadeus Mozart), an inventor (Johannes Gutenberg), and an explorer (Christopher Columbus). Only one person on the list (Thomas Jefferson) had anything to do with politics.

While they were at it, the editors also compiled a list of the ten "Worst Villains" of the last one thousand years. All were political figures: Genghis Khan, Tamerlane, Vlad the Impaler, Cesare Borgia, Ivan the Terrible, Robespierre, Joseph Stalin, Adolf Hitler, Idi Amin, and Pol Pot.

The two listings taken together suggest a rather sobering lesson about going down in history: If you go into politics, you are more likely to wind up a villain than a hero.

—JAMES L. PAYNE

Controlling Government

But what is government itself, but the greatest of all reflections on human nature? If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on

government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. A dependence on the people is no doubt the primary control of the government; but experience has taught mankind the necessity of auxiliary precautions.

—*The Federalist*

“One-for-All” Health Care: A Firsthand Account

I held an engineering position with an American company in Sao Paulo, Brazil, from 1957 to 1961. The Government of President Juscelino Kubitschek de Oliveira had set up a “one-for-all” health care system, supported by premiums paid into it by people with incomes above an established minimum. The Government subsidized poor and low-income people.

Several health care centers were set up, where medical needs would be determined in an interview, and doctors and hospitals would be assigned.

Every morning starting at 4 A.M., lines three blocks long would form at the centers. The first 100 patients would be admitted by 9 A.M., then wait inside till about 2 P.M. to be seen. Many in the lines had to return the next morning.

During my stay, both my children needed tonsillectomies, and my wife required a varicose vein operation. It took me a week to find out that I would have to wait 8 to 12 weeks. In addition, I would have to pay a fee

commensurate with my above-average income.

I went private: all three operations were performed within three weeks for a cost of one monthly salary.

Eventually, all who would rather pay and get fast and reliable service, instead of waiting three months for the services of an unknown doctor, suspended payments for their state insurance premiums. I did too. The lines at the state health centers thinned: only low-income people and the poor lined up in the morning. In time, the Government health program collapsed for insufficient funds.

—ARTHUR S. KELLER

Property—the Secret of U.S. Economic Development

A farmer who owned the land on which Rochambeau’s troops were encamped asked for his rent. The French officers paid no attention to this “absurd claim.” Seeing this, the republican clodhopper cut short any further discussion and went off to fetch the Sheriff, asking him to arrest the trespasser. Your excellency should imagine the arrival of these two poor countrymen—the plaintiff and the Sheriff—unarmed but strong in support of the Law, and resolved to arrest the French General, M. de Rochambeau, in front of all his troops. The General was duly summoned by the Sheriff and required to pay all of his due. . . . How, in such a country, could desert land fail to bloom; how could the shiest and most timorous of men fail to turn honest, just, hard working, educated, and courageous?

—FRANCISCO DE MIRANDA (1750–1816)

DENIAL OF RIGHTS THROUGH REGULATION

by Zak and Jo Anne Klemmer

When does uncompensated regulation become theft? Environmental regulations have become some of the most obtrusive laws invading private property rights today. Regulatory taking gave rise to *Lucas v. South Carolina Coastal Commission*, decided last year by the U.S. Supreme Court.

David Lucas paid \$975,000 in 1986 for two beach-front lots on which he planned to build two houses, one for himself and one to sell. A state agency barred the construction under an environmental law that took effect two years after he purchased the lots. Lucas sued the state of South Carolina, arguing that the regulation denied him all economically viable use of his land. (It should be pointed out that similar single family houses are adjacent to both sides of Lucas' property.)

The state court agreed with Mr. Lucas' argument and awarded him \$1.2 million for the regulatory taking of his property. However, the South Carolina Supreme Court reversed the lower court's decision on appeal, ruling that "a restriction 'enacted to prevent serious public harm' doesn't require a state to compensate landowners for their losses."

Zak Klemmer is a designer with M3 Engineering and Technology in Tucson, Arizona. Jo Anne Klemmer is the business manager of the Tucson Osteopathic Medical Foundation.

This case made its way to the U.S. Supreme Court. In June 1992, Lucas received a six to two vote in his favor. In an opinion for the majority, Justice Antonin Scalia wrote, "Even if a regulation addresses a serious harm, the government must compensate a property owner denied all economically viable use of his land."

Although the decision was favorable for Lucas, it appears that the U.S. Supreme Court's decision was narrowly drawn and did not adequately protect property rights destroyed by land use restrictions. "This was a golden opportunity to 'straighten out' the law on the government taking of property. . . . The court 'blew' the opportunity . . . It's impossible to tell what it does to a whole range of cases because its effect may be extremely limited," writes Roger Pilon of the Cato Institute.

What land use restrictions achieve is a weakening of our economy by obstructing commercial development. This is a direct and intended result of environmental activism. An overly broad environmental agenda, enforced by expansive regulations with a sluggish legal system, can be as destructive to our economy as confiscatory taxation. The net effect of a regulatory taking of property, as illustrated by *Lucas*, is similar to that of a direct tax, in that it hinders (or in some cases prevents) the property owner's use of his livelihood, his rights.

Some twenty-five hundred miles away from David Lucas, Neil Simon of Tucson, Arizona, represents the Venture West Group (VWG). This is an investment group founded in Tucson in 1981. The VWG has successfully developed commercial real estate in Phoenix, Denver, and California, as well as Tucson.

Simon, like Lucas, is embroiled in a property regulatory nightmare with environmental do-goodism at its core.

The property in consideration is a 7.1 acre site at Broadway and Houghton, on Tucson's east side. This parcel has been zoned for shopping center use for the entire eleven years that VWG has owned it. Running through the middle of this parcel is a dry wash (approximately 3.2 acres), which traverses into an existing culvert under Broadway Boulevard. Many washes have been culverted along Broadway to accommodate commercial projects.

As a pretext to save the remaining "prime riparian habitat areas" within the city limits of Tucson, no-growth activists lobbied the City Council to pass the Environment Resource Zone Ordinance (ERZ) in 1990. The ERZ Ordinance was intended to prevent the development of 53 miles of designated washes. The parcel at Broadway and Houghton fell under the ERZ. Because its 600-foot-long wash bisects it into two less valuable parcels, Simon sought a variance to allow development of the shopping center. This process began in January 1991.

By December 1991 the City Board of Adjustments unanimously approved the variance. This lengthy process included, among other things, public hearings. The variance, however, was subject to design considerations intended to mitigate the impact of development on the wildlife habitat in the ERZ. These considerations attached additional costs to the project outside the control of the developers and their architects surpassing \$100,000. In February 1992 the City Council of Tucson took up the issue and overturned the variance that had been granted by the City Board of Adjustments.

"We want to build the shopping center. We don't want to file a lawsuit," said Simon

in reply to the Council's reversal. "The Council's action amounts to an illegal 'taking' of property," declared Sy Shorr, Simon's attorney. The VWG has filed a lawsuit of \$2.5 million against the city for the refusal to allow this proposed shopping center to be built over a culverted wash.

It seems as though government agencies have an endless supply of time and money to obstruct citizens who expect these agencies to respect and honor their constitutional right to own and use private property. One may ask: When does regulation become an obstacle to productivity and progress? And, what occurs when a regulation becomes an end in itself instead of the means to an end? When regulation becomes an end in itself, it perverts the law and usurps the economic freedom it is designed to protect, resulting in poverty and decline. The endless delays and regulations which have been imposed on Simon's project have not only been financially prohibitive, but have detrimentally affected the economic health of the local community by the loss of potential employment.

More Regulation Means a Loss of Jobs

Moving westward to California we locate still more examples of undue regulations brought on by environmental activism. The Council on California Competitiveness (CCC) reported in April 1992 that the growing regulatory burden has become a major hurdle to the state's economic recovery. Since 1990, 700,000 jobs have been lost in California; yet regulatory costs to employers persist. The once proud "Golden State" no longer creates jobs and wealth. It is creating burdensome regulations, exorbitant state government employment, and deficits at record levels. According to the CCC, chaired by Peter Ueberroth, "Laws that were originally passed to protect our quality of life now are being used to thwart environmentally sound economic growth without balancing job impact with economic needs."

Ball Glass Packaging Corporation has

been producing glass jars in Santa Ana, California, for the past 60 years and has employed over 300 people. Ball Corporation is closing its doors. Why?

David Westmoreland, vice-president of Ball Corporation stated, "One of the problems we have in the South Coast Air Quality Management District (AQMD) is that we're always chasing a moving target." To be more specific, Westmoreland lamented, "[The Santa Ana plant] has a furnace which is the heart of the operation which by necessity of normal [economic] life will require major repairs next year. But, before that furnace can go through its next life cycle, new rules are passed that make it no longer in compliance. . . . You could put millions into a rebuild only to find out you've been regulated out of business."

Besides the dilemma of financial feasibility, another problem with compliance is dealing with the regulatory agencies. Meeting with enforcers who possess overlapping authority becomes time consuming and frustrating. "These agencies are really not interested in hearing about your troubles. . . . And we've had people say, 'If you can't meet the rules, shut up and get out of here.' Just like that, 'if you can't meet the damned rules, close down. We don't care!'" charged Francis Paladino, senior vice president of operations for the Ball Corporation. Consequently, Ball Corporation will do just that—close down. Those companies who looked to Ball Corporation for their jars will now have to look elsewhere.

And, again in California: At a time when South Central Los Angeles desperately needs jobs, one furniture manufacturer (who requests anonymity) said he had to move 500 jobs from Southern California to Mexico because of AQMD regulations governing wood paint. "The primary reason for the move," he said, "was that the air quality rules were neither legitimate nor reasonable. We proved that what they were asking us to do was physically impossible and we demonstrated it, so they gave us a three-month variance."

"Why they thought we could comply in three months, I cannot say," he added. The furniture is still sold in Los Angeles so the

manufacturer must now ship materials to Mexico and the finished product from Mexico. This obviously adds to the traffic congestion, tailpipe emissions, and equipment costs of this manufacturer. "We have now doubled our fleet of trucks so the amount of stuff we're putting into the air with [the added] trucks is probably more than we were putting into the air as manufacturers," he said.

A 1990 Department of Commerce survey of manufacturers found that 62 percent of those surveyed cited "streamlining environmental regulations" as an imperative policy goal. In Southern California alone there are 39 agencies with water quality authority, 38 with hazardous waste authority, 17 with air quality authority, and 14 with solid waste authority. Due to this glut of regulatory agencies, Southern California is losing state revenue and employment for its residents with the exodus of businesses. States like Colorado and Nevada have recruited businesses from California by streamlining the regulatory process.

The regulatory taking of property implemented by the bureaucracy plunders the rights of property owners and produces a needless financial burden. The hidden cost of complying with these laws is measured by time lost in negotiating the nearly endless maze of local, state, and federal agencies in the permit process, through applying for variances and design changes, defending nuisance suits, and enduring delays in the legal process. All of this dramatically impedes economic growth for each of us by raising the cost of housing and manufactured products, thwarting production of new products, and eliminating employment opportunities.

All law, including environmental regulations, must be based solely on our individual rights to own and use private property. The greatest danger exists in subordinating our rights to the technocracy of the central planners. Communism may be dead or fading in Eastern Europe, but collectivism as a political philosophy is still alive and dangerous to everyone in the industrialized West. □

A SUBTLE SEIZURE

by Daniel F. McInnis

Talk about birdbrained ideas. After Woodman, Wisconsin, resident Gene Luebker erected a birdhouse by his front window, local authorities objected. State legislators had designated Luebker's property, along with 92 miles of nearby real estate, part of the protected Lower Wisconsin Waterway. No new structures in view of the river would be tolerated, including birdhouses.

As Mr. Luebker and other property owners have discovered, state and federal zoning, historic preservation, and environmental regulations are decreasing private landholders' ability to use their land. "Private" property means less today than in any other time of our Republic.

David Lucas learned this hard lesson when the South Carolina Beach Front Management Act barred construction of two houses on his two coastal lots.

What makes Lucas different from the millions of other property owners who have had the use of their land restricted by government is that he sued and won. His claim was based on the "taking clause" of the U.S. Constitution's Fifth Amendment.

"If we ignore the Constitution," said Mr. Lucas, "then we will become a country ruled by men, instead of by the law."

The framers of the Constitution understood well that the excesses of government

had to be contained. Schooled in the English common law tradition that held that even the poorest hovel in Britain was protected from the uninvited entry of the King, they included the taking clause in the Constitution's Bill of Rights. The clause prohibits government from taking private property except for a public purpose and then only if fair compensation is paid.

Applying the taking clause is difficult, however, when government stops short of seizing title or possession of property and instead restricts an owner's use. The U.S. Supreme Court has been reluctant to broadly deny these "regulatory takings." It was not until 133 years after the creation of our government that the Supreme Court in *Pennsylvania Coal Co. v. Mahon* first held that government action could rise to the level of a taking without an actual physical occupation of the property. The Court ruled that the owner of surface property could not use a Pennsylvania law to prevent mining under the property where the mining company had previously purchased all the necessary property rights to do exactly that. Justice Holmes wrote that "[t]he general rule . . . is, that while property may be regulated to a certain extent, if the regulation goes too far it will be recognized as a taking."

But how far is too far? No acceptably consistent doctrine of regulatory taking has evolved. Justice Brennan, in a decision infamous to property rights advocates, admitted in *Penn Central Transportation Co. v. City of New York* that taking law was

Daniel F. McInnis is a member of the Georgetown Law Journal at the Georgetown University Law Center. This article was written as part of a fellowship at the Institute for Justice, a public-interest law firm in Washington, D.C.

"essentially ad hoc." While noting that the "Fifth Amendment's guarantee . . . [was] designed to bar Government from forcing some people alone to bear public burdens which, in all fairness and justice, should be borne by the public as a whole," the Court nonetheless found that New York City's historic landmark laws could prevent the owners of the Penn Central Terminal from adding multiple stories on top of the existing building. Applying an ad hoc "standard," the majority was able to decide that limiting the ability to increase the size of a building contravened no property right at all. For the good of the citizens of New York City, the owners of Penn Central had to keep the station as is without being compensated.

Personal Preference versus The Rule of Law

When courts are guided by uncertain rules, personal preference rather than the rule of law can control. In practice, overriding public interest and deference to the legislative branch and its "police power" have become broad jurisprudential exceptions to the Fifth's seemingly simple command.

Especially troublesome is the "nuisance" exception: the doctrine that the government does not have to pay compensation when it restricts land uses that harm others. Rather than locating the definition of *nuisance* in the common law or another restrictive basis, courts in the tradition of New Deal economic regulations allow legislators great deference in mandating what is and is not a nuisance. Property rights become whatever legislatures say they are.

The South Carolina Supreme Court, in reviewing Lucas' victory in trial court, relied upon the state's police power and reversed the lower court's decision. Building close to the beach was a nuisance, since the Beach Front Management Act was designed to protect dune systems that serve as a storm barrier. Development on Lucas' lot would endanger the coastline and lives and property, at least according to the South Carolina General Assembly. No compensa-

tion was owed under the "nuisance" exception.

Fortunately for Lucas, the U.S. Supreme Court disagreed. On the last day of the 1992 term, the Court ruled that the South Carolina government had indeed "gone too far." Accepting the trial court's finding that South Carolina's law confiscated Lucas' land so that there was no remaining economically viable use, the Court was willing to put the burden on the state to justify why it shouldn't pay compensation. Thus, where 100 percent of the use of property is prohibited, the state must pay compensation unless it can prove that the potential use constituted a common law nuisance to other property owners.

Activities that constitute nuisances under the common law may be legally prohibited by harmed parties. In essence, the Court recognized that the state is merely protecting those rights when it prohibits those activities: "The individual whose nuisance is enjoined gets no compensation, however large his loss, because he had no right to that activity to begin with," says Roger Pilon, the Director of the Center for Constitutional Studies at the Cato Institute. Conversely, where no common law rights exist, government cannot prohibit without compensating those who bear the burden of the regulation. Common law rights rather than legislative preference limit the power of government to regulate property.

Lucas, however, is no revolutionary breakthrough for property rights. The decision creates a rule only for those laws which are so heavy-handed that an owner is left with "worthless" property. No doubt, future legislation will be crafted with this limitation in mind. Some uses will be specifically left to land owners. As Justice Blackmun pointed out in his dissent, Lucas could still use his property to "picnic, swim, camp in a tent, or live on the property in a movable trailer." Courts still have to determine what exactly the phrase "all economically viable use" means.

Also left unresolved is the issue of how courts will view the extent of property interests. As every first-year law student

learns, a piece of property can be compared to a "bundle of sticks" that can be divided into numerous interests including the right to possess, use, and transfer. The right to each of these interests can be held by one or separate owners. Likewise, land can be divided into parcels. What would have happened if the South Carolina government had denied Lucas the ability to build on only one of his lots? *Lucas* does not answer the question of how finely government can slice property interests and avoid the issue of whether *all* economically viable use has been taken.

In light of 50 years of New Deal era precedent, the *Lucas* decision moves toward protecting individual rights and limiting the role of government in the economic sphere. Government regulations on property, rather than having the presumption of validity, are held to a judicial standard of review that puts the onus on government to justify its actions.

No doubt even this minor burden on government in an admittedly rare case will cause dire concern among those who think that government should be able to burden property at whim. Their loss in the Supreme Court presages a new battle in the court of public opinion.

Opponents of a broad-based private property protection offer two policy arguments why the Supreme Court should not protect property owners like Lucas and Luebker. First, they present apocalyptic scenarios where all zoning regulation or building codes, no matter how beneficial, would be declared unconstitutional. Second, they complain that laws, like wetlands regulations, would not exist if property owners had to be compensated for their losses.

Courts are not going to declare all zoning unconstitutional anytime soon, unfortunately. Property rights advocates have more modest goals. Government should bear the burden of justifying all property regulations in terms of the general welfare, whether the reduction in value is one or 100 percent. The *Lucas* precedent should be expanded, and the standard by which to measure regulations should be the same as the common law

of trespass and nuisance, which allow property owners to use their land as long as they don't harm others. If government can't justify a regulation on health and safety grounds, they can still take private land. However, they must pay the owner for his loss.

Can Wisconsin justify banning birdhouses? Many property regulations make little sense when viewed in terms of harm to the public rather than benefit.

Rent control may benefit renters, but allowing a homeowner to charge the going rate for his property harms no one in any way our legal tradition recognizes.

Zoning likewise may not always be an innocent public good. Requiring large lots for new housing may increase the value of real estate, but it purposefully prices out teachers, policemen, and other working people.

Historic preservation laws allow preservationists to benefit from property without having to purchase it. But replacing old buildings with new often revitalizes neighborhoods. Preservationists complain not because they are harmed by improved property, but because they will no longer be able to enjoy older structures for free.

Those who argue it would be disastrous to make government pay for land taken in the name of environmental protection are admitting that their goals would not pass muster if they had to be paid for by the polity.

If environmental protection is a public good that must be provided by the government, in all fairness, the public should bear the burdens of paying for it.

After untangling himself from bureaucratic red tape, Gene Luebker got to keep his birdhouse. But not satisfied, he erected a flagpole and invited the local Veterans of Foreign Wars and the National Guard over to raise the American flag. A red-faced attorney general quickly announced that flagpoles were not banned by state law.

The lesson is clear. Private property should enjoy some protection against excesses by government. The Fifth Amendment's taking clause can justifiably provide that security for all Americans. □

GOVERNMENT HIGHWAYS: UNSAFE AT ANY SPEED

by Richard Barbarick

The Vietnam War claimed 47,355 American lives in combat over 17 years, from 1957 to 1973. In addition, over 150,000 Americans were injured in that unpopular and unsuccessful war. Each year in the United States as many lives are lost in motor vehicle accidents as during the entire Vietnam War. For decades, 40,000 to 50,000 people have been killed each year in U.S. traffic accidents.¹ In only one year, 1968, did the complete death toll of U.S. soldiers in Vietnam exceed the death toll on roads back home in America. Where is the public uproar, the journalistic indignation, the public cry for an end to the slaughter? For years, self-styled consumer advocates have been pressuring Congress to mandate automobile safety, but the death toll remains high. No one has apparently realized that the root of the problem might be public roads, rather than private automobiles.

Since the wide acceptance of the automobile in the 1920s, over two million Americans have died in traffic accidents.² That is far more than the roughly 824,000 Americans who have died in U.S. wars and conflicts dating back to the American Revolution, including Civil War Confederate combat deaths.³ Motor vehicle accidents

are the leading cause of accidental death in the United States. For young people, ages 15–24, motor vehicle accidents are the leading cause of death—accidental or otherwise.⁴ That statistical trend has been stable for many years.

The symptoms of roadway mismanagement are common knowledge. Mothers Against Drunk Drivers (MADD) formed in the 1980s as a grassroots effort to focus attention on drunk driving. Numerous studies have reported on the state of the aging U.S. transportation infrastructure. And there are ongoing minute-by-minute broadcasts on the roadway congestion common to metropolitan areas. Unsafe, aging, and overcrowded roadways might be expected in a Third World nation, but not in the world's largest, freest, most economically advanced country.

Americans may watch with curiosity as they see television news coverage of Eastern Europeans literally standing in line to buy staples such as bread, meat, and soap. But American commuters participate in our mixed economy's form of a waiting line by crawling through rush hour traffic. The goods may be different, but segments of our economy are equally mismanaged based on the same wrongheaded idea of "public goods."

Socialist management practices have

Richard Barbarick is a computing program manager in Seattle, Washington.

been proven to be futile, yet America's roadways are largely managed on the basis of a command economy. Roadway management is government-controlled and dangerously ineffective. Decision-making is based on political expediency rather than consumer preference, economics, or engineering. This results in poor maintenance, pork barrel construction projects, growth for government's sake, and a short-term focus on managing crises. Maintenance, safety, and customer satisfaction are overlooked in exchange for political gain.

Spiro Agnew resigned as Vice President in a scandal based in part on questionable payments he received from roadway construction and engineering firms while he was governor of Maryland. As Agnew himself put it, "anyone who's been around the political scene in the United States, who would expect that campaign contributions don't come from contractors doing state and federal business, is quite naive."⁵ Agnew's case is characteristic of a bad system.

Some may suggest the automobile is the source of these problems, that the so-called social costs of the automobile are simply too high. But city streets were congested before Henry Ford made the first mass-produced, affordable automobile. The ascendancy of the automobile only serves to illustrate that government management of roadways is inept. Over time, roadway managers have not responded to the challenge of the demand for motor vehicle travel through market pricing, technological innovation, and specialized roadways.

In fact, President Eisenhower's 1956 approval of the National System of Interstate and Defense Highways for connecting the country through a web of interstate freeways was motivated by Ike's interest in moving servicemen and matériel in the event of war; the civilian traveler was a secondary concern. The success of the automobile and the independence of the commuter may be unmanageable problems to government planners, but to a businessman they present a market opportunity for voluntary exchange for mutual gain. The success of airline deregulation in the late 1970s

hints at the potential success of a free market in roadways.

The mismanagement of existing roadway transportation facilities has helped to create the transportation "crisis" which in turn has stimulated demand for mass transit consultants, contractors, and administrators. Of course, many such experts' proposed solutions call for an increase in taxation to support infrastructure modernization, ever more freeways, and mass transit projects on the scale of the Pharaohs' Great Pyramids.

In addition, motor vehicle transportation is subject to the burden of capricious government regulation with the subsequent limitations on consumer choices (e.g., mandatory speed limits, airbag, seat belt, and shoulder harness requirements). We have shock-absorbing bumpers that can withstand crashes at speeds of five miles per hour, yet there are no physical safeguards to prevent one from driving while legally intoxicated. One should be skeptical that this reflects the will of consumer demand.

In spite of lower speed limits, increasing the legal drinking age to 21 in all 50 states, and narrower blood-alcohol test limits, roughly half of all fatal traffic accidents are still alcohol-related.⁶ America continues to suffer ongoing slaughter on its roadways. With more than two million dead, reasonable limits were exceeded decades ago. No private industry could tolerate such high rates of mortality and injury.

It is not that our government roadkeepers are unaware of these problems. The federal government has several agencies keeping score on various aspects of motor vehicle and roadway safety. The National Safety Council, the Department of Justice, the Federal Highway Administration, the National Center for Health Statistics, the Surgeon General, the Department of Transportation, and other agencies compile and analyze roadway safety statistics. Much of this statistical effort is originated or extended by various departments and agencies of the 50 states.

While the government keeps count of the victims of its own roadway mismanagement, a few others are looking to the disci-

plines of the marketplace, especially for easing congestion and raising capital to maintain and expand the transportation infrastructure. In Southern California, four sections of new highway are being built as privately funded and operated tollways with reversion to the state at the end of a 35-year management contract. Growing government budget deficits have opened the door for such semi-privatization experiments. Because of concerns about legal liability, ownership of the tollways remains with the state, so there will still be the lack of motivation to create the far safer roadways that theory suggests would exist in a free market.

In commercial aviation, airlines are low key in addressing the issue of safety in their marketing. They commonly make reference to their long experience in the sky and their use of state-of-the-art technology to be reassuring. Likewise, safety would clearly be a competitive issue in a free market for roadway transportation. High levels of safety and accident prevention are fundamental to the popularity of air travel; it is essential for the prosperity of the air transport industry, an industry with projected revenues of \$48 billion in 1992.⁷

On average, a few hundred people die each year in commercial aviation accidents; air travel would slow to a trickle long before air accident rates began to approach anything close to the carnage of roadway accident rates. While it is true that many nations' airlines are state-owned, they must adhere to the strict standards of excellence set by private carriers to remain competitive. In roadways, there is no such privatized leading light to set high standards of safety and efficiency.

Organ donor cards are combined with drivers' licenses in many states. No cynic has suggested that this is an acknowledgement that roadway accidents are a leading cause of death for people who are otherwise in the prime of their lives, an ideal source of healthy human remains. Organ transplant recipients are unwitting beneficiaries of government roadway mismanagement. It is possible that motorcycles (donorcycles) would

be prohibited in some privatized roadway systems, as the safety and liability issues might be too great for private enterprise to bear.

The Insurance Information Institute of New York estimated the economic loss from motor vehicle accidents and injuries at \$93.9 billion in 1989.⁸ For perspective, that amount equals 61 percent of the 1989 federal budget deficit.⁹ But the fact that public roads have led to the deaths of millions of innocent people is overlooked. Yet the greatest cost of public roads is death and injury, not late or inconvenienced commuters. There must be a better balance among cost, safety, efficiency, and regulation. The marketplace would create a better balance than government planning provides today. The most cynical observer would suggest that poorly maintained roads are used as the basis for justifying increased construction and maintenance budgets; absent a profit motive, mismanagement is rewarded with increased funding. A well-tuned, smoothly operating system would provide less basis for ever increasing budgets.

The idea of roadway privatization is radical from today's perspective, but by no means is it new or even foreign. The United States has a long and rich history of private roadways, turnpikes, and bridges. The first engineered and planned toll turnpike in the United States was a 62-mile, stone and gravel road completed in 1794 between Philadelphia and Lancaster, Pennsylvania.¹⁰ In these times of government budget crises, such privatization alternatives are more frequently discussed as a means of financing new projects. The existing roads could be sold to private businesses as well.

Innovation

Innovations in private roads might include congestion pricing, faster construction to hold down costs, limitations on vehicle size and axle weight to improve efficiency and safety, more one-way routes in congested areas, additional tunnels and bridges (right of way permitting), and more use of roadway rights of way for pipelines

and transmission lines. Other possible innovations include improved roadway surfaces and easier to understand signs and markings. Private road owners might prohibit the passage of cars with exploding gas tanks, cars in a clear state of disrepair, or vehicles that are prone to rolling over. Responsibility and liability would help enforce a new discipline on all parties. Licensing would not be done by governments, but by road owners, and police would not be used to enforce traffic regulations. They would actually be out catching criminals.

Today's "free" roads are too dangerous and too crowded. Peter Gordon, in a paper for the Reason Foundation, quotes John Kain's estimate that 95 percent of all urban roadway congestion is due to the mispricing of 5 percent of the roadways.¹¹ Such estimates are subject to academic and professional debate. If Kain is even close in his estimate, this suggests that America already has sufficient roadways to support today's traffic if only there were some information upon which consumers could base their trip decisions. That information would be expressed in the form of a price; a free market would be the only way to determine that price. Congestion pricing, just like long-distance telephone carriers' peak hour rates, would cause many people to choose to avoid rush hour.

But emphasis on efficiency without regard to safety improvements is short-sighted. Nobody would use efficient, privately owned and operated, congestion-priced phone lines were there a risk of electrocution each time the telephone was used. We won't wake up in a laissez faire, libertarian world any day soon, but roadway privatization is being given a trial in the name of efficiency. However, the longer term outlook must include safety.

It has long been argued that passenger vehicles subsidize roadway construction for commercial trucks and buses. In a free

market, special highways might be built for some truck routes, trucks might be prohibited during parts of the day, and they would be charged fees more consistent with the cost they impose on the road owner. Government-subsidized road building puts the railroad industry at a disadvantage to the trucking industry. In this case, highway taxes and construction spending have become a political tug-of-war fought between special interest groups. This distorts the allocation of roadway resources compared to what would occur in a free market.

One can hope that the trend toward privatization will reach U.S. roadways and lead to safer and more efficient roads. Roadway slaughter can and must end. Our roadkeepers expose us to senseless risk of injury and death, and we often have to wait in line for the privilege. As America continues to enjoy the greatest freedom and prosperity known to mankind, one hopes that the world can look to America for leadership in roadway privatization and the resulting benefits of increased safety and efficiency. □

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SAVING SICK CHILDREN FROM STATE SCIENCE

by A. M. Rogers

The constitutional guarantee of religious freedom has often butted heads with the state. Though religious freedom was once the cornerstone of this country, its position has been slowly eroded. And the state has justified this erosion by deference to what the law has turned into another god—science. The area of children's health and well-being has become one of the major battlegrounds of religious freedom.

Background

As early as 1880, a state removed children from a parent's care because the parent had not sought treatment from a medical doctor. In the case of *In Heinemann's Appeal*, a Pennsylvania court found the father guilty of neglect of a child under the state statute because he had himself treated his wife and three other children who were sick with diphtheria.¹ At the time, diphtheria was sweeping through parts of Europe and the United States. And interestingly, the first effective diphtheria antitoxin was not developed until 1890, by a German bacteriologist. Other Pennsylvania cases in the early 1900s held parents guilty of manslaughter for the failure to provide their children with medical treatment despite religious objections.²

In almost every state today, whether the

A. M. Rogers is an attorney and physicist in Ormond Beach, Florida.

parents fail to seek medical treatment for a child based on the parents' own secular perceptions of the best interest of the child or their most fervent religious beliefs, the state can intrude and the parents can be prosecuted criminally.

According to the *American Law Reports*: "It has been settled that a state, as *parens patriae*, may order medical treatment to save the life of a child notwithstanding the parents' religious objections to the treatment."³

In 1967 in Washington, a group of Jehovah's Witnesses brought suit in opposition to a state statute that allowed the courts to order medical treatment, including blood transfusions, for children without parental consent. Jehovah's Witnesses believe that the act of receiving blood or blood products precludes a person from resurrection and everlasting life after death. In the case of *Jehovah's Witnesses in the State of Washington et. al. v. Kings County Hospital Unit No. 1*, the plaintiffs argued against the statute on a variety of grounds. Among others, they argued that it denied their right to family privacy afforded them by the U.S. Constitution's Ninth and Fourteenth amendments; that it denied them equal protection under the law since the state protects the religious liberty and parental rights of all other citizens and all other religions; that since the plaintiffs have a deep sense of

responsibility as a family, they have the right to decide what medical treatment they will accept for their children; and, that the plaintiffs have been denied life, liberty, and property without due process of the law as guaranteed them by the Constitution's Fifth Amendment and made applicable to the state by the Fourteenth Amendment.

The state's highest court did not find any of these grounds persuasive. The court concluded that religious freedom does not include the freedom to expose children to ill health or death and that the state has the right to intervene in the name of health and welfare in these circumstances.⁴

The U.S. Supreme Court typically has refused to hear similar cases. The high courts in New Jersey and Illinois also overruled parents who are Jehovah's Witnesses when they objected to their children having a court-ordered blood transfusion and both these cases were refused review by the Supreme Court.⁵

In a 1991 case in Massachusetts, a hospital sought authority to permit and administer a blood transfusion to an 8-year-old girl over her parents' religious objections.

The McCauley parents had taken their daughter Elisha to the hospital for medical tests. The tests made an initial determination of leukemia, but the doctors wanted to do a bone marrow aspiration to determine with greater certainty whether Elisha did have leukemia. However, the doctors felt this procedure could not be performed safely unless they first increased Elisha's critically low hematocrit reading by giving her a blood transfusion.

The Massachusetts State Supreme Court here found three interests at stake: the natural rights of the parents, the child's interests, and the state's interests. The court then concluded that the interests of the child and the interests of the state outweighed the parents' rights to refuse medical treatment.⁶

In these cases, the Jehovah's Witnesses were not opposed to medical treatment but only the blood transfusions. Similarly, in a 1972 Pennsylvania case, the mother, a Jehovah's Witness, agreed to the surgery but refused to consent to the blood transfusion.

No doctor would perform the surgery, however, without prior consent to a blood transfusion, should it become necessary. A hospital director initiated these court proceedings under a state statute authorizing court-ordered treatment for children being deprived of the proper or necessary medical or surgical care. The child here had survived polio but was now no longer able to walk because of both obesity and curvature of the spine. The lower court authorized surgery on the spine and the concomitant blood transfusion. But the higher court reversed this order noting that the boy's condition was not life threatening.⁷

In other cases, the question of court-ordered medical treatments turns into cases of criminal prosecution.

In a 1985 Pennsylvania case, a couple was found guilty of involuntary manslaughter and endangering the welfare of a child in the death of their 2½-year-old son. The parents had not sought any medical treatment outside their own religious treatment of their son, who eventually died of a cancerous tumor.⁸

In Indiana, a jury found a mother and father guilty of reckless homicide and child neglect in the death of their 9-month-old daughter. Allyson Bergmann became ill May 28, 1984, and her parents treated her with prayers, fasting, and invocations of scripture. Allyson died eleven days later from bacterial meningitis. Indiana, like Florida, recognizes a religious-belief exception to the statute pertaining to child neglect. The Bergmanns appealed their conviction on the basis of this exception, but the appellate judge let the conviction stand, arguing that the religious-belief defense was a question of fact for the jury to decide.⁹

In contrast, in 1990 a Minnesota judge ruled that a Christian Scientist couple could not be prosecuted for manslaughter in the death of a diabetic 11-year-old boy who was the wife's natural son and the husband's stepson. The judge here cited the state law on child neglect that excepted religious treatment.¹⁰

In a widely publicized recent Massachusetts case, David and Ginger Twitchell were

found guilty of involuntary manslaughter in the 1990 death of their 2½-year-old son Robyn. When Robyn became ill in 1986, his parents treated him solely with prayers. Five days later, he died of a bowel obstruction. Although the Twitchells could have received up to 20 years in prison, the judge placed them on ten years' probation. They were also ordered to take their three remaining sons in for periodic medical checkups with a licensed pediatrician.¹¹

In Florida, a Christian Scientist husband and wife received probation for an April 1989 conviction of third-degree murder in not providing medical treatment for their diabetic 7-year-old daughter. But recently the Florida Supreme Court reversed their conviction, stating that the religious treatment exception was too vague.¹²

This decision will likely affect the convictions of Charles and Merilee Myers, members of a religious sect that shuns doctors. They were given five years' probation in 1991 for medical neglect of their 16-year-old son who did not die from what doctors diagnosed as a near-fatal heart tumor. "Adults are free to choose martyrdom," the prosecuting attorney said. "Children cannot have it thrust upon them."¹³

In August 1989, a Santa Rosa, California, jury acquitted two Christian Scientists of involuntary manslaughter in the meningitis death of their 15-month-old daughter, but convicted them of child endangerment. However, a Los Angeles judge in February 1990 acquitted another Christian Scientist couple of involuntary manslaughter for the meningitis death of their toddler son for insufficient evidence.¹⁴

Several other cases indicate that the trend in some states is to order medical treatment over a parent's religious objections even where there is no life-threatening condition.

In the 1972 case of *Re Karwath*, an Iowa court held that a juvenile court acted properly when it ordered surgical removal of the tonsils and adenoids of three children in the state's care despite the father's religious objections. The father wanted the surgery to be a last resort after medication and chiropractics had been used. According to the

medical testimony, the children were suffering from middle-ear infections that "could possibly lead to loss of hearing and rheumatic fever."¹⁵ The oldest child had missed several days of school because of his ear problems and concern over this inattention weighed heavily in the court's ruling.

In a 1972 New York case, a family court judge ordered doctors to perform what was characterized as "risky" surgery on a 15-year-old whose face and neck had been disfigured by a nonfatal, incurable disease. Here again the judge concluded that non-emergency surgery can be ordered over parental religious objections because of the state interest involved in compulsory education. The 15-year-old had not been attending school because of his disfigurement.¹⁶

In California, a court ordered corrective surgery for a 6-year-old boy born with clubfeet. The boy's Laotian-born parents had opposed the surgery because they believed that the boy's clubfeet was a curse inflicted on them by the spirits. The U.S. Supreme Court in 1990 refused to overturn the lower court's ruling that authorized the surgery. Nonetheless, despite the court order, no hospital has agreed to perform the operation without parental consent.¹⁷

In Connecticut, in 1990, a 7-year-old girl born with rheumatoid arthritis was taken from her mother because her mother, a Chinese immigrant named Juliet Cheng, had been treating her daughter Shirley with acupuncture, herbal potions, and other non-Western medical treatments. The mother had initially sought help from an American doctor who prescribed aspirin for the then 11-month-old girl, but the mother said the treatment didn't help. Doctors at Newington Children's Hospital in Poughkeepsie, New York, told Cheng that Shirley needed surgery or she would never walk again. When Cheng refused, the hospital persuaded the State Department of Children and Youth Services to take custody of the child. After five months, however, the state Department relinquished custody to the mother after two of the three doctors on the court-approved panel had examined the girl and recommended against the surgery.¹⁸

The State's Position

The notion *parens patriae* is the fundamental principle behind this case law. It means "father of the country" and it denotes the state's role as a sovereign guardian over "persons under disability."¹⁹ It ultimately places the power in the state government to determine to what extent it will act to protect the interests of "its" children. Thus, the state is always the backstop and referee behind every parent. The state is the one that prescribes a legal duty to those charged with the care of a child to provide that child with medical attention. The parents are prosecuted for breaching this duty, and religious freedom is involved only parenthetically as a possible argument against state intrusion.

"Acting to guard the general interest in the youth's well-being, the state as *parens patriae* may restrict the parent's control by requiring school attendance, regulating or prohibiting the child's labor, and in many other ways. Its authority is not nullified merely because the parent grounds his claim to control the child's course of conduct on religion or conscience."²⁰

But the million-dollar question is what course of treatment will guarantee a child's well-being?

Medical testimony is crucial in these cases. The child's death has to be seen as the result of the parents' failure to get medical attention. Doctors cite statistics on the child's chances of survival based on the stage the disease is in when treatment is begun. For example, in the Pennsylvania *Barnhart* case, a doctor testified that the child's chance of surviving the cancerous tumor was 95 percent if the cancer was discovered at an early stage, 85 percent if the tumor had spread locally, and so forth.

Yet, even if true, what do these statistics mean? The 5 percent who don't survive even when the cancer is discovered at an early stage die for a variety of reasons. The treatment may fail to cure the cancer or the treatment itself may kill them. Who can tell whether the *Barnhart* child falls in the 95

percent or the 5 percent? The state certainly can't know.

The scientifically naive believe that there is truth in science. They see medicine as equivalent to mathematics where 2 plus 2 always equals 4 and, therefore, when a doctor diagnoses a heart tumor as "fatal," it will cause death 100 percent of the time. But medicine is not a logical system; it exists in the empirical world of complex human organisms. When the court officials order that the child be treated and the child dies, hasn't the child in this situation also had "martyrdom" thrust upon him?

Science, particularly medicine, is experimental, which means no particular result is predictable with 100 percent accuracy. The U.S. Government Office of Technology Assessment reports that 80 to 90 percent of doctors' treatment methods are not based on scientifically proven principles and, consequently, the results are not guaranteed reproducible.²¹ Childhood vaccinations that were supposed to wipe out illnesses are themselves responsible for causing severe health problems and even death in a small minority of children. According to the California Department of Health Services, the risk of dying or developing brain damage from the pertussis vaccine is estimated to be one in 100,000, and the chance of developing paralysis from the polio vaccine is one in 500,000.²²

There are also other complicating factors. Studies show the high risk involved in medical treatment, for example, of misdiagnosis, and that one out of five people entering a hospital leaves with a condition he didn't have when he entered.²³

David and Ginger Twitchell, the Massachusetts Christian Scientists convicted of involuntary manslaughter, had thought their son was sick with the flu. He had felt well enough to go outside and play the day before he died. After the trial was over, David Twitchell told reporters that he and his wife "will try to obey the judge's instructions," but he added that he was "having trouble figuring out whose judgment is going to decide exactly when a problem is serious and not just a cold." He also stated that he

didn't believe a regular checkup would have saved his son's life.²⁴

In every one of these cases, the state acts under the mistaken notion that it can accomplish what it sets out to accomplish: the child's well-being. Further, if parents are to be criminally liable, then the government, as *parens patriae*, when it fails to cure the child, should also be liable to criminal prosecution. But the truth is that in every case the parents are being held liable because their chosen course of treatment failed to cure their children. It was the illness itself—whether bowel obstruction, meningitis, cancer, diabetes, or whatever—that killed the child. Under the government's own logic, state officials who mandate that modern medicine be used should also be held guilty when modern medicine fails.

A different standard is being applied to the parents than to the state in these cases that involve a failure to cure. These are not cases of medical malpractice or parental abuse where the doctors or parents contribute to causing the child's death by an act of poisoning, starvation, administration of the wrong medication, or some other kind of physical abuse. When the parents do their very best for their children and the children die, the parents are held responsible for their failure to cure the child. But when the doctors do their very best for a child and the child dies, the doctors are not held responsible for their failure to cure the child. This results in an unfair, inequitable treatment of the parents.

A Fair and Equitable Standard

To apply the state laws to everyone equally and to eliminate this unfair double standard, the legal system has two choices. The system can prosecute parents, government officials, and doctors alike when their mandated course of treatment fails to cure the child. The doctor who follows the medically accepted treatment of chemotherapy for cancer and cures his patient won't be prosecuted. The doctor who follows the same course of treatment but fails to cure his patient will be prosecuted as well as the

government official who authorized the treatment. Of course, if officials and doctors are more successful at curing cancer, meningitis, and other diseases than parents are, the percentage of doctors and officials being prosecuted would be less than the percentage of parents being prosecuted.

The other option, which is supported by the Constitution's First Amendment, is for the members of the legal community to realize that even though science has become enormously successful, disease and other maladies can never be perfectly controlled by any judge, doctor, parent, or legislature. Parents should be accorded the same immunity from prosecution when their cures fail as doctors are in the same circumstances. And, then, parents will be free to pursue the course of treatment they choose without state intrusion.

The attitude of state judicial and legislative systems is threatening the preservation of freedom. State officials attempt to ascribe a certainty to science and medicine that simply is impossible to achieve. By science's nature, there can be no certainty for treating a particular sick child. It is time to eliminate the double standard for parents and doctors. □

1. *In Heinemann's Appeal*, 96 Pa. 112 (1880).

2. 52 A.L.R. 3rd 1118.

3. *Ibid.*, p. 1119.

4. *Jehovah's Witnesses in the State of Washington et al. v. Kings County Hospital Unit No. 1*, 278 F.Supp. 488 (W.D. Washington, 1967).

5. *State v. Perricone*, 37 N.J. 463, cert. denied 371 U.S. 890 (1961); *People ex. rel. Wallace v. Labranz*, 411 Ill. 618, cert. denied 344 U.S. 824 (1952).

6. *Matter of McCauley*, 565 N.E. 2d 411 (1991).

7. *Re Green*, 448 Pa. 338 (1972).

8. *Com. v. Barnhart*, 497 A.2d 616 (1985).

9. *Bergmann v. State* 486 N.E. 2d 652 (1985).

10. *The Orlando Sentinel*, February 17, 1990, A-20.

11. *The Orlando Sentinel*, July 7, 1990, A-14.

12. *The Orlando Sentinel*, September 6, 1992, B-6.

13. *The Daytona Beach News Journal*, July 22, 1991, B-3.

14. *The Daytona Beach News Journal*, April 18, 1990, A-2.

15. *In Re Karwath*, 199 N.W.2d 147 (1972, Iowa).

16. *Re Sampson*, 29 N.Y.2d 900 (1972).

17. *The Orlando Sentinel*, December 16, 1990, A-19.

18. *Ibid.*

19. *Black's Law Dictionary*, revised 4th Ed. (West Publishing, 1968), p. 1269.

20. *Com. v. Barnhart*, 497 A.2d 616, 622 (1985).

21. Charles B. Inlander, *Take This Book to the Hospital With You* (New York: Pantheon Books, 1991), p. 111.

22. *The Orlando Sentinel*, March 5, 1991, G-4.

23. Inlander, p. iv.

24. *The Orlando Sentinel*, July 7, 1990, A-14.

IN DEFENSE OF PROPERTY RIGHTS AND CAPITALISM

by Tibor R. Machan

The concept of freedom, in its socially relevant sense, means the condition of individuals free from aggression by others.¹ This is the political freedom of the unique American political tradition. It rests on the recognition of every individual's equal moral nature as a self-determined and self-responsible agent, regardless of admittedly enormous circumstantial differences.

By political freedom I mean that no one is an involuntary master or servant of anyone, including the government. In short, when the consent of the governed is the reigning principle, political freedom exists; when it is compromised, political freedom is in peril. Economic freedom implies freedom of trade, in the classical liberal tradition of political economy.

To understand the nature of free trade, one must note first of all that it is logically dependent on the principle of the right to private property. One cannot trade if one does not own anything. Oddly, Karl Marx clearly identified the function of property

rights: "the right of man to property is the right to enjoy his possessions and dispose of the same arbitrarily, without regard for other men, independently from society, the right of selfishness."²

Marx focused on the worst-case scenario, but one should not do that when considering the characteristics of a system of principles. Of course, the right to private property makes free trade possible and thus leaves one free to dispose of one's possessions irrationally. But it also leaves one free to act and trade in accordance with the best judgments one can form—something Marx did not mention. Marx gave us just a fraction of the story. Private property enables one to dispose of one's belongings either responsibly or irresponsibly, so that trade can yield both worthy and unworthy results. Yet, precisely because it is private property, acting in a fashion that brings unworthy results will be less likely, since the harm will first of all befall the owner, not others. Property discourages irrationality and encourages rationality.

It bears noting that most prominent and articulate contemporary defenders of capitalism are economists. This creates a misimpression. Economists study the way the free market satisfies human desires, but they ignore the nature of those desires. They do not concern themselves with whether the

Tibor Machan was a visiting professor at the United States Military Academy, West Point, during the 1992–1993 school year. He will resume his duties as Professor of Philosophy at Auburn University this fall. His most recent book is Capitalism and Individualism: Reframing the Argument for the Free Society (St. Martin's Press, 1990).

market may be morally justified, whether it is an institution basically in line with human moral values. Economists focus on explaining, describing, and predicting the ways of a free market. They insist that economics is value free.

When the most prominent advocates of the free market are economists, it appears that nothing other than efficiency matters about the marketplace. But, in fact, there are certain normative or ethical features of the free society that an economic analysis of free markets leaves unmentioned. This would not be a problem if economists were not the virtually exclusive defenders of the free market.³ But the market rests on institutions and ideas that are ethical in nature.

Freedom of trade presupposes property rights. If no such rights exist, then there is no need for or opportunity to trade. People could just take from others what they want and would not need to wait for agreement on terms. Or, alternatively, if everyone owned everything, no one could ever trade. Everyone's permission would be required for every transaction.

For individuals and voluntary associations, such as corporations and partnerships, to set terms of trade presupposes the authority to make decisions about property. That is indeed a moral precondition of a free market, not a purely "descriptive" one.⁴

The moral nature of property rights should be clear enough: If I own something, that means that others *ought to* refrain from thwarting my choice of what to do with it. I am the one who is authorized to set terms, not others. (This is why theft is a vice!) This is a moral issue because it involves considerations of what persons ought to do.

And, not surprisingly, critics of a free society seem to know all this. They capitalize on the fact that economists are reluctant to discuss ethical issues by suggesting that something is amiss in their theory. What critics don't realize is that precisely because of this value component at the base of market economic theory, the system is demonstrably sound and much of what economists say about it is right.

If economists who defend the market-

place admitted that at its base we find certain assumptions as to how individuals ought to act and what governments should uphold, they could still proceed to carry on with their analysis of how such a system works and why it produces more efficiently than all others. This would leave open the question as to whether those basic assumptions are sound. Even if they turned out not to be, the economist could insist that the business of economics is to study market processes and others should take on the task of figuring out whether alternatives to a market economy might be preferable for other than economic reasons.⁵

I have noted that the principle of property rights underlies the market. What are property rights? They are necessary preconditions of genuine free trade and thus of a free market.

Certainly there are numerous societies in which conditions resembling a structure of property rights are evident—we might call them a structure of property *privileges*. In these societies persons are *permitted*, within certain limits, to hold and trade goods and services, although the government—the local Coastal Commission, the Federal Communications Commission, the king, or some other powerful group or person—can legally revoke the privilege. In such societies there is no genuine free market. They have what resembles free markets in the same way a sophisticated zoo can resemble the actual wilds, or some parents give children limited personal responsibility. And, of course, the more such privileges become entrenched and depended upon, the more the market will exhibit the tendencies we expect in a free market place. In any case, the right to private property needs now to be considered in some detail, since it is the bedrock of economic freedom. We are interested here in the way human freedom relates to economic freedom.

The Right to Private Property

Human freedom, as understood within the American libertarian political tradition, is inseparable from economic freedom and

the principle of the right to private property. Why is this so?

Political freedom, as we have seen, means not aggressively intruding upon one another. We have also noted that this is a crucial requirement of human dignity, the opportunity to aspire to moral excellence. What has not been brought out in this discussion is that any opportunity must have a sphere or realm. Making moral choices requires that one have room for making them—to use Robert Nozick's phrase, it requires "moral space."⁶

Very plainly put, the principle of the right to private property serves the purpose of always translating the freedom of self-responsibility into realistic, concrete policies. To the extent that a human polity must be focused on securing the opportunity for individuals to pursue "the general welfare"—and insofar as the human good must be achieved by all individuals on their own within a concrete realm of jurisdiction or "moral space"—a good human community must secure for all persons such realms of private jurisdiction. The law of property would be that branch of legal theory which would develop the method for securing for all their proper domain of authority within a highly complex society, one in which what belongs to someone can range from a horse to a sophisticated chemical formula to a musical arrangement.

To the extent that the law of property is not guided by the principle of the right to private property, it departs from this objective. But, of course, the main question that faces us in this connection is how to determine the parameters of the domain of personal authority and thus assign protection to just that set of items or property?

This is a very complex issue indeed. Locke's labor theory of property is not adequate as an answer because it is not clear what can count as "mixing one's labor" with nature. Ideally, if we were to start from scratch, the entrepreneurial theory of property would be best. Described by James Sadowsky, this line of analysis supports the conclusion that "The owner of property performs an entrepreneurial function. He

must predict the future valuation that he and others will make and act or not act accordingly. He is 'rewarded' not primarily for his work, but for his good judgment."⁷

This is consistent with an earlier point we raised, namely, the basis of personal moral responsibility. That basis is in one's fundamental choice to think or not to think, to exercise one's rational capacity, one's faculty of reason. Since morality presupposes choice, and since all persons are free primarily in their use of their minds, the source of moral merit is, as Sadowsky put it, good judgment. A rational creature would be expected to excel precisely in proportion to his willingness to live by good judgment, and when this good judgment is made with reference to matters of prosperity, it is no less meritorious than when it is made with reference to hygiene, truth-seeking, family matters, career, or politics.

Economic freedom is a necessary but not sufficient condition of human excellence. It is a prerequisite of human dignity. It is indispensable for moral agents who must make their way in life in the context of a world the various parts of which may be controlled by different individuals. So as to make certain that each individual has a reasonably clear idea of what parts of reality are within his or her jurisdiction—so that he has, as it were, his moral props in clear focus—a system of private property rights is necessary. Such a system preserves the moral independence—though not, as caricatured by Marx and many others, the social autonomy—of everyone.

Capitalism and Morality

Statists of all stripes have been very eager to undermine the moral legitimacy of capitalism. Economic defenders of the system have tended to avoid the argument, maintaining that on the whole the capitalist system produces greater wealth than do others, a result which everyone seems clearly to prefer.

But this defense is inadequate. We can easily think of circumstances when considerations of prosperity must be traded off so

as to achieve other values. We know that no expense must be spared when aiming for some goals. Some economists duck this fact by engaging in economic imperialism, holding that since all values are reducible to wealth, all trade-offs are economic. But this is not so. Friendship is not mainly an economic value—if one were to trade it for, say, a raise in pay, one would be acting unethically, not simply losing some valued items. A betrayal will not qualify for an exchange of economic values.⁸

Because the economists have tied their hands about morality, capitalism has been under fire from all sides. It is really something of a tragedy that the most humane, most productive, and most benign system of human economic arrangements would be the target of some of the most morally reprehensible critics—terrorists, Marxist-Leninists, fascists, *et al.* But, to quote Shakespeare, “Wisdom and goodness to the vile seem vile: Filths savour but themselves.”⁹

Consider some typical and oft repeated charges against capitalism:

1. Capitalism is anarchic.
2. Capitalism produces waste and trivia.
3. Capitalism caters to the base within us.
4. Capitalism neglects the poor.
5. The workers under capitalism are exploited.
6. The wealthy under capitalism gain special protection against adversity.
7. Capitalism destroys the fine arts.
8. Capitalism threatens the environment.

One could go on, especially if one included charges which are leveled with a particular axe to grind, e.g., about inequality of wealth, the disparity of wages paid to different segments of society, and so forth. But these charges presuppose the normativity of human economic equality, something that rests on intuition rather than argument.¹⁰

Let us take some time here to respond to some of the moral criticisms of the free market capitalist system. We will see, I think, that in preserving human freedom, especially in the context of commerce, capitalism not only escapes being responsible

for moral shortcomings but actually facilitates moral excellence throughout a culture.

Capitalism and Human Excellence

The alleged anarchism of capitalism rests on the view that when free trade or exchange reigns—i.e., producers can freely attempt to interest consumers in their wares, while consumers can freely choose to spend their earnings on items they wish to have—this must result in reckless disregard for what is of real importance in human life.

The charge is plausible, because in a free market place there is ample opportunity for producing and consuming trivial and even morally odious goods—e.g., pet rocks and pornography—as well as plenty of evil production and consumption. The charge, made by Marxists and conservatives alike, is strengthened by the fact that the alternative offered is always some *vision* of perfect order—e.g., humanity fully matured in some distant future (Marx) and society well governed by wise leadership (Plato and George Will).

But the reality is that markets are not anarchic but merely reflect the human situation. We are not guaranteed the company of wise and virtuous fellows. We can only choose what we will do about their presence in the neighborhood. We can trust in the illusion of some future paradise on earth or in the guaranteed, long range superiority of certain persons, both of which are fantastic. Or we can try to make sure that the effects of other people's foolishness and vice will be limited to their own domain. A system of private property rights can do this better than anything else.¹¹

As for the second objection, capitalism does at times produce waste and trivia. But it produces immensely useful items as well, more so than any other system. From the mass production of stereo equipment and prints of the best of mankind's artistic achievements, to hospital instruments and special nutrition for those with health problems, capitalism especially serves the unique, because its method of production

guided by the price system informs producers of needs better than any other method.

Moreover, what may seem trivial to some people can be of immense value to others. The reason this is overlooked is that even today many people fail to accord proper standing to individual differences. Thus while most of us may find the various items in tourist traps useless, there can be individuals to whom these can be of value.

As to the pornography or prostitution which could exist in a pure capitalist system, it is not something that need be rationalized away as wonderful (since there is a demand for these, and the consumer is king).¹² It is possible to combat them on the personal, social, and cultural levels (through the comic arts, editorials, pulpit, and so forth). Capitalism does not just protect the freedom of the base but also that of the noble. It is a prejudice to hold that the market caters to our baser self. Capitalism, by encouraging the rational and responsible use of property, actually meliorates vices like greed, envy, and dishonesty. It is planned economies in which those vices are rife.

As for the poor and the workers, the treatment of workers under early industrial capitalism was not as harsh as the Marxists have alleged. It is true that England at the end of the eighteenth and the beginning of the nineteenth century was rather different from the ideal situation. But the extent of the misery after the introduction of more or less free economies has been grossly exaggerated.

There would have been even greater misery had this system *not* been introduced. This leads us to believe that there was something radically wrong before the change that has never been given the proper attention. While most of the frightful restrictions on economic action were removed, many of the enormous feudal land-holdings were left untouched in the name of respect for private property.

As we know, these holdings were mostly the result either of conquest or state land-grants. It is highly dubious that these holdings could ever have attained their size on the free market. Justice would have dictated

the division of these lands among the agricultural workers. Unfortunately this was not done. The result was that a few individuals had votes in the market far beyond their due and were thereby enabled to determine the course of events.¹³

With this power at their disposal, it is not surprising that "capitalists" enjoyed special advantages. But to mistake this for a typically capitalist situation is a serious confusion.

There is another error underlying the charge that capitalism leads to worker exploitation. This is that workers are helpless creatures. The market, however, makes it possible for workers to improve their lot.

Marx was influenced by Thomas Malthus' view that the working class will multiply far more rapidly than the income it can generate will support, thus workers will be more and more exploitable, given how plentiful they are. Malthus has been refuted both in theory and by history—the enormous number of working people in the world have frequently enough found themselves very productively employed, usually when markets were more than less free, when governments did not distort the principles of free trade by domestic and international violation of individual rights. In addition, Marx had little confidence in human creativity and entrepreneurship. Thus he did not make sufficient room for a sustained rise in the demand for goods and services, based on what human beings could both invent and learn to enjoy or use. The work force in a capitalist society is, therefore, far from easily exploited. Indeed, it is insulting to workers to think otherwise, and Marx (and later Lenin) had a low opinion of ordinary human beings.

Finally—and this is most difficult for some to fathom—many who are allegedly exploited among the workers have placed themselves in a position of weakness. They failed to develop their skills and talents, so they must take what they can get of limited jobs for the unskilled. They should in fact be grateful that someone will provide them with opportunity, not protest that they are being mistreated. To proclaim that workers

are always exploited, as a class, is to show that one is wearing ideological blinders and is really not very familiar with actual persons in the labor force.

The next charge against capitalism is that it favors the wealthy. In a free society where no special legal privileges are permitted for anyone and where government is restricted by constitutions from regulating economic affairs, the wealthy have only those advantages which come from wealth. These involve the greater ability to purchase various goods and services offered on the free market, an advantage that in a constitutionally limited government does not include political power. Furthermore, wealth gives some only one type of advantage. Personality, character, talent, good will, perseverance, and hard work can often result in far greater success than wealth.

Marx has tried to discredit the claim that it was governments in the past—feudalist, mercantilist—which gave lopsided advantages to some select people. When the large joint stock companies had been established, governments clearly favored them, so that nations might gain wealth, although this proved to be a rather frail strategy. In any case, without going into the historical record of why some firms managed to exercise undue power in the market place—namely, because of their special legal privileges—we can point to some matters everyone can testify to. Mostly we can note that in the United States, which has had the greatest degree of capitalism in human history, the positions of the wealthy and the poor are not held by one single class or select few. Rather these positions are in constant flux—or at least this has been so in the past, prior to the onset of the massive welfare state—far more than under any other system. This seems to suggest that the wealthy under capitalism have less political or legal power than in other systems.

The charge that capitalism destroys the fine arts because it makes mass culture dominant is also unfounded. Because of the “noise” of popular culture, the fine arts may not be so visible as are rock and roll,

television, and popular literature. But in total quantity, never have so many listened to, viewed, and otherwise experienced so much of great artistic achievements as in capitalist or near-capitalist societies. The mass production of the arts, indeed the finest of them, proves this beyond any reasonable doubt.

As to capitalism’s impact on the environment, there is no other system that makes a better effort to avoid the tragedy of the commons, the source of all environmental problems. This is because under capitalism property is privately owned. Any use of property to the detriment of neighbors would be legally actionable as a form of dumping, trespass, assault, invasion, and so forth. When privatization is impossible or technically infeasible, there would be personal injury provisions against pollution. Any activity that isn’t peaceful in this sense would have to be prohibited, no less than rape or assault is now. Indeed, the most effective environmentalist public policy flows from a system of private property rights in which both persons and property are supposed to be protected from invasion.¹⁴

Final Reflections on the Value of Free Markets

It is true that human beings are not perfect. To try to force them to be perfect is futile. Herbert Spencer was dead right when he observed that “The ultimate result of shielding men from the effects of folly is to fill the world with fools.”¹⁵ A sign of our imperfection is that we keep returning to the failed effort to perfect one another.

To ask that government, for example, attempt to cure us of our imperfection is to show that one isn’t willing to live by one’s own evaluations: If the world needs improving, the proper approach is to use whatever skill one has to remedy matters. Censors should try their hands at writing better literature. Critics of waste should produce things of value. Those who fear the base within us should turn to moral education as a way to help out. Those who sympathize

with the "exploited" workers might help by becoming one and seeking remedies.

Capitalism is the political manifestation of the human condition: We are free to do good or evil, and in society we need to keep this in mind. The free market, through the principle of the right to private property, helps us keep this in mind—indeed, institutionalizes it through the law of property.

Democracy itself, which is so much prized even by outspoken critics of the free market, would be impossible without meeting the preconditions of the marketplace. This is because democracy requires some secure realm of personal jurisdiction or authority for those who are asked to make their views evident by way of the vote. They need to know that if they are a minority, they will not be at the mercy of vengeful victors who deprive them of their lives, liberty, and property. In short, a democratic polity cannot function without capitalism, the system in which private property rights are protected. □

1. I discuss the different kinds of freedom that are of concern to us in my paper, "Two Senses of Human Freedom," *The Freeman*, Vol. 39, January 1989, pp. 33–37.

2. Karl Marx, *Selected Writings* (Oxford University Press, 1977), p. 53.

3. I have in mind such eminent economists as Milton Friedman, James Buchanan, Gary Becker, and the late George Stigler, F. A. Hayek, and Ludwig von Mises, all of whom stress those aspects of the free market that pertain to its efficiency and eschew concern with whether the system is indeed in accord with, for example, prudence and justice.

4. Some argue that rights should be thought of as meta-normative principles in that they do not directly bear on how one ought to conduct oneself but on the conditions required by everyone in a community for making the choice about how to live. See, for more on this, Douglas B. Rasmussen and Douglas J. Den Uyl, *Liberty and Nature, An Aristotelian Defense of Liberal Order* (La Salle, Ill.: Open Court Publishing Co., Inc., 1991).

5. Something along these lines applies to any applied science; e.g., engineering or building construction. They as-

sume that what is to be done is morally justifiable, though it isn't their province to dwell on that issue.

6. Robert Nozick, *Anarchy, State and Utopia* (New York: Basic Books, 1974), p. 57.

7. James Sadovsky, "Private Property and Collective Ownership," T. Machan, ed., *The Libertarian Alternative* (Chicago: Nelson-Hall, 1974), p. 123.

8. Democritus of Abdera wrote: "The same thing is good and true for all men, but the pleasant differs from one and another." Quoted in Barry Gordon, *Economic Analysis before Adam Smith* (New York: Barnes and Noble, 1976), p. 15.

9. *King Lear*, Act IV, Sc. II.

10. This doctrine has gained considerable support at the hands of John Rawls, *A Theory of Justice* (Cambridge: Harvard University Press, 1971), in which the role of moral intuitions as the central feature of the foundation of political justice is vigorously endorsed.

11. Some of this is implicit in the Austrian economists' famous discovery of the calculation problem under socialism. See Trygve J. B. Hoff, *Economic Calculation in the Socialist Society* (Indianapolis, Ind.: Liberty Press, 1981).

The discovery of serious difficulties with a common ownership policy should be credited to Aristotle (*Politics*, Book II, Ch. 3, 1261b34–1261b38). Another version of the point is made in Garrett Hardin, "The Tragedy of the Commons," *Science*, vol. 162 (1968), pp. 1243–48.

Perhaps there is yet another expression of this same difficulty, in connection with the various impossibility theorems showing that rational public choice is not possible in a fully democratic society, one in which citizens may demand the satisfaction of their desires from the government. See Kenneth J. Arrow, *Social Choice and Individual Values*, 2nd edition (New York: Wiley, 1963). See my "Rational Choice and Public Affairs," *Theory and Decision*, vol. 12 (September 1980), pp. 229–258, as an attempt to spell out the criteria by which we should determine whether something falls within the public domain and is, thus, subject to public policy decision making. I develop this line of thinking further in Tibor R. Machan, *Private Rights, Public Illusions* (New York: Transaction Books, forthcoming).

12. Walter Block's book *Defending the Undefendable* (New York: Fleet Press Co., 1976), which is argued from a free market perspective, makes it appear, quite mistakenly, that nothing else but coercion constitutes evil conduct. Clearly, however, one can betray friends, debase an ideal, lack courage, act imprudently, and do all kinds of moral wrongs without coercing anyone. Even some of the practices that may appear to be justified rebellion, such as littering, could turn out to be mere slothfulness or at least lack of civility in others. The defense of human liberty does not require abandoning moral standards—quite the contrary: It is in part so as to enable us to invoke moral standards freely, without regimentation from others, that freedom is vital to everyone.

13. Sadovsky, p. 124.

14. For a more detailed treatment of this issue, see Tibor R. Machan, *Private Rights, Public Illusions*, Chapter 8.

15. Herbert Spencer, "State Tampering with Money Banks," *Essays* (1891).

Three Blessings in One

■ The superior freedom of the capitalist system, its superior justice, and its superior productivity are not three superiorities, but one. The justice follows from the freedom, and the productivity follows from the freedom and the justice.

--HENRY HAZLITT

RE-REGULATING AIRLINES

by Paul A. Cleveland

In 1978, Congress passed legislation which phased out the Civil Aeronautics Board and thus deregulated the airline industry. The bill was passed amid industry speculation that deregulation would endure for only a brief period of time. Trade publications prophesied re-regulation would follow the demise of a number of the large trunk carriers. They predicted that only four or five large carriers would survive in the competitive environment and when this occurred a movement to re-regulate the industry would result.

Fourteen years after deregulation we have seen the financial collapse of several of the large trunk carriers and the merger of others. As a result, just as industry insiders forecasted, the number of large airlines in the nation has shrunk substantially. Additionally, the media are running numerous stories about fluctuations in the airline industry and the loss of stability. Amid these stories there are calls for re-regulation just as industry officials had prognosticated; but no one seems interested in the facts about deregulation.

In the midst of all the clamor about the instability of the industry and the demise of once profitable carriers, no one seems to be asking whether or not deregulation has resulted in anything positive for the consumer.

Paul Cleveland is an assistant professor of finance and economics at Birmingham-Southern College in Birmingham, Alabama.

Given the media attention to gloom and doom, the reality might surprise many people. In fact, in the years since deregulation, air travel has increased dramatically and the real price of air travel has fallen. In 1977 domestic air travel accounted for 147.078 billion revenue passenger miles of air transportation service. By 1986 this level increased to 252.724 billion revenue passenger miles. This is an increase of 71.8 percent or an average annualized growth rate of over 6 percent. To put this growth rate in perspective, we can note that real GNP for the economy grew at an average annualized rate of less than 3 percent for the same period.

In addition, airlines are increasing the percentage of seats actually filled on their flights, thus making more efficient use of their resources. The average load factor during the ten-year period leading up to deregulation was 52.4 percent. This percentage increased to 59.8 percent for the following ten-year period. This increase has been accomplished through the development of hub-and-spoke networks which allow the airlines to clear passengers through central terminals and thus offer much wider varieties of service than could have been offered before. It is granted that network expansion typically requires passengers to make one stop en route to their final destinations, but it is this approach which has made air travel accessible to many more consumers. Furthermore, it is a technique that allows the

airlines to control costs and operate their equipment efficiently. This is borne out by the data which indicate that the number of available aircraft for service has risen by 52.2 percent from 1977 to 1986. Given that air passenger service has increased by more than 70 percent for this same period we can see the increased efficiency of the equipment used. That the airlines were forced to control their costs of providing the service is just one more positive result of deregulation. This process weeded out those firms which could not provide service at the competitive rate.

As a final consequence of deregulation, some might be surprised to find out that the number of fatalities per passenger mile of service has actually fallen during deregulation. Air travel is safer today than ever before. During the ten-year period prior to deregulation the industry averaged 253.5 fatalities per year. During the ten-year period following deregulation average yearly fatalities in the industry dropped to 153.8. This reduction even includes those airline deaths that occurred as a result of some type of terrorist activity. Why has this happened? I think it is the result of competition which has streamlined the industry and resulted in the continued operation of only those airlines most qualified to offer a quality service at an attractive price.

Given all these positive results, why then would anyone propose re-regulating the airline industry? We can identify three reasons for those proposals. First, some individuals have a vested interest in a regulated airline industry. Second, many people continue to hold the misconceived notion that industrial competition depends solely on the number of market participants. Finally, there seems to be a rising concern that major airlines are developing monopoly control at their primary hub airports. Let's examine each of these areas of concern.

Vested Interests

If deregulation taught us anything, it is that industry insiders have a vested interest in being regulated. In the years since dereg-

ulation took effect we have seen numerous airlines unable to manage the resources at their disposal well enough to continue in business. As a result, a competitive environment has forced them from the industry. Managers in this industry must have had a much easier life when they were not allowed to compete against one another. Even now, those who have competed successfully must long for the days when life was easier. No doubt they would welcome the re-regulation of the industry.

This is true not only for the managers, but for the other employees as well. When competition is thwarted it is easy to request and obtain pay increases that would never be warranted in a competitive environment. Therefore, it shouldn't be surprising to see union officials discuss the "disaster" of deregulation. Indeed, competition has been a disaster for the unions because it has undermined their privileged position.

Finally, there are governmental officials. They also have a vested interest in re-regulating the industry. Bureaucrats must have bureaus. Without them they have no position from which to meddle in the affairs of others. Busybodies are generally uninterested in producing something valuable for someone else. Rather, they prefer to intrude upon other people's businesses.

Understanding the Nature of Competition

Next consider the prominent view of competition. People today have developed a distorted understanding of the meaning of competition. As Israel Kirzner points out in his book *Competition and Entrepreneurship*, the reason for this confusion rests with economists and their focus on long-run, perfectly competitive equilibrium as a definition of competition. But as Kirzner quite rightly points out, this is not competition at all. Rather, it is the absence of it.

In the context of the airline industry, the current concern with the number of remaining large carriers is unimportant. The process of competition is working. We see the process working as we watch those airlines

which are unable to keep up fall by the wayside. Their assets are then reallocated to the remaining firms that have proven their ability to provide a relatively more desirable service to the traveling public. In light of this process, is it any wonder that air travel has expanded so rapidly since deregulation?

Even if it were true that numbers were important, the re-regulationists would still be no better off in their argument for re-regulating the industry. This follows from the fact that it is not the number of airlines that exist which is important in their argument, but rather the number of airlines that provide service for a particular city-pair market. During the regulatory years it was not surprising to be limited to only one carrier which served a specific city-pair market. For more heavily traveled routes, we sometimes found two firms; but it was unusual for more than two air carriers to serve the same route. Therefore, if the result of airline deregulation is the elimination of all but four airlines, and the remaining carriers serve roughly the same markets, on the basis of numbers alone we must conclude that there is more competition.

The “Monopoly Control” Hubbub

This brings us to the final concern. In recent years there has been a great deal of interest about the level of competition at hub airports. In particular, some writers have suggested that airlines are engaged in developing monopoly control over air transportation into and out of their primary hubs. These writers have focused on the percentage of service dominated by one carrier at some airports. For example, Delta accounts for a significant proportion of the traffic through Atlanta, and Northwest accounts for a sizable portion of traffic through Minneapolis. The critics argued that since these airlines control such large portions of the traffic through these hubs, they can therefore charge higher prices for nonstop service originating or ending at these hubs.

In response to this criticism one is left to wonder why this state of affairs is so bad.

After all, if price is the primary factor for the customer there are probably numerous one-stop options to and from these airports. Alternatively, if time is of the essence, then the extra price would certainly not be problematic from the consumer's point of view. Either way, one would be hard pressed to argue that the airlines were not providing a valued service for the price. We have already seen that one result of deregulation has been the development of hub-and-spoke networking which typically requires that passengers be funneled through a central clearinghouse en route to their final destinations. We also saw that this approach makes the most efficient use of resources. Therefore, it is not surprising to find that passengers pay a premium for nonstop service.

There remains, however, one more feature of the airline industry that we should consider with respect to the issue of fortress hubs. Specifically we need to consider the way in which airports are constructed and operated in the United States. Airports have typically been constructed and operated as public enterprises. That is, they are government owned and operated. The funding to construct airports has come from local bond issues and from federal funds. To obtain gates and landing slots the airlines sign use agreements with the public authorities assigned the task of overseeing airport operations.

There are two types of use agreements commonly employed. They are the compensatory agreement and the residual cost agreement. A compensatory agreement is a standard type of contract. The airline agrees to compensate the airport authority for its use of the facilities according to the terms of the agreement. The rates for leasing gates and for landing and take-off slots are spelled out in the agreement. Under this type of contract the financial risk of the airport remains with the airport authority.

A residual cost agreement is somewhat different. Under the terms of this contract the airlines agree to pick up any additional costs of the airport not covered by previous payments for gates, landing and take-off slots, concessions and other ground-related

revenues. This contract shifts the financial liability from the airport authority to the airlines. In particular, the airline most at risk is the one with the dominant presence at the airport using such a contract.

Dominant airlines have been unwilling to sign these agreements without the inclusion of a "majority-in-interest clause." A majority-in-interest clause allows the airline underwriting the burden of the financial risk the power to control future capital decisions. Thus a dominant airline could prevent the expansion of the airport if the proposed construction did not meet its own time frame for expansion. In a very real sense, the airline would be in a position to thwart entry because of the nature of the use agreement.

The problem in this case is not a competitive airline industry. Rather the problem is a socialized system of airports. If the airports were privatized this problem would vanish, for an entrepreneurial airport would seek profitable airport expansions. Someone might try to argue that airlines which

currently have the majority positions at airports would end up purchasing the airports so as to continue to limit entry and competition; but this argument is weak. In this case the airline would be pitted against itself. Should it operate its airport at a less than optimal level and take a loss on the airport for the sake of its air passenger service? I think the answer is no. Through the fortress hub situation the competitive airline industry has revealed to us another industry which needs to be competitive.

What will happen to the airline industry in the future? Will it be re-regulated as the industry prognosticators have forecast or will it remain competitive? Will we ever seriously consider privatizing the airports or will we continue to operate them as relics from the past? For now we don't know the answers to these questions. Let us hope that we will have the common sense to maintain and enjoy not only a competitive airline industry, but a competitive airport industry to match. □

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RENT CONTROL AND THE PENULTIMATE SOLUTION

by Scott Gardner

In January 1988 President Reagan indicated that he would ask Congress to end federal aid to cities that had enacted rent control laws. This request was motivated by newly completed studies showing that the destructiveness of rent regulation effectively nullified any benefits that might be bestowed on municipal economies by federal funds. Predictably, his proposal aroused such a storm of protest and recrimination that the President backed down, and since then no national politician has dared to challenge rent controls in any public forum.

I can readily understand why. For the past fifty years, rent control has been a sacred cow of statism. In fact, this law is considered by many to be among the crowning achievements of enlightened social legislation.

As a former owner of a small Manhattan townhouse with just six residential tenants, I had occasion to experience this "crowning achievement" first hand. During the ten years I owned this property, I was involved in thirty or forty administrative actions, which included assorted rent rollback hearings, illegal occupancy determinations, non-payment proceedings, violation summonses, unauthorized subleases, and rent overcharge rulings, all precipitated by my tenants' unlawful conduct.

*Mr. Gardner, a former landlord and proponent of free-market housing, is a newspaper columnist and author of *Live Rent-Free for Life*, a satirical exposé of the New York City rent-control system.*

In every case I found myself at the "enlightened" mercy of a group of judges, politicians, and bureaucrats who exhibited such biased and vindictive attitudes toward landlords that I began to feel as though I were a Jew in Nazi Germany.

At first I dismissed this feeling as an outrageous over-reaction to the difficulties I was going through. Having had relatives who perished in the Holocaust, I tried to convince myself that this inappropriate comparison was the product of my own imagination. After doing some additional research, I came to the conclusion that this apparently innocuous law called rent control is not so benign as its proponents would like us to believe it is.

While there are obviously many differences between rent control and Naziism, both systems display similarities too numerous to ignore. The sad truth is that when rent control's rhetoric of humanitarianism is peeled away, underneath is a political philosophy ominously similar to fascism.

I am aware that in today's entitlement-oriented society, there is a great resistance on the part of the social liberal community to see rent control in any but the most humanitarian light, claiming it provides a measure of protection for the poor and the downtrodden. Naziism initially was also seen as a great benefactor of the poor by many observers both inside and outside Germany.

Long before Hitler embarked on his program of mass extermination, Nazi discrimination and restrictions against the Jews were primarily economic in nature: expulsion from the professions, confiscation and destruction of commercial property, extortion of money for ransom and exit permits. To avoid trivializing the Holocaust and invoking visions of Auschwitz, I therefore limit my comparison of rent control with the *early* treatment of the Jews at the very beginning of the Nazi regime.

The analogy between rent control and Nazism starts with the disturbing fact that while it is unfortunate for people to be antagonistic toward landlords (or Jews as the case may be), it is extremely dangerous to have these prejudices mandated by government, codified by law, and politically enforced.

Rent control laws that have been entrenched in communities like New York City, Berkeley, and Cambridge implicitly assume all landlords are greedy scoundrels and need to be disciplined and punished for exploitation of their tenants (who are all paragons of virtue in desperate need of protection against such monsters). By singling out landlords for such "special" treatment—and *making it the law*—rent control's similarity to the Nazi policy of discrimination against Jews becomes readily apparent.

Rent control is based on a denial of the notion of equality before the law. For example, in New York City, any and all statements by tenants are automatically accepted at face value as true, while every allegation by a landlord must be accompanied by documented proof. While there are dozens of official complaint forms, telephone hotlines, and agencies dedicated to protect tenants against their landlords, nothing similar is available for landlords' protection against their tenants. While tenants are given free legal counsel by the city, landlords must assume these costs privately. And finally, the law specifically forbids tenants from entering into separate rental agreements with their landlords, thus abrogating property owners' rights of vol-

untary contract. But this double standard before the law is just the tip of the iceberg.

While rent control stops short of confiscating a landlord's property outright like the Nazis did to the Jews, this law does force landlords to subsidize their tenants regardless of whether the tenants need such support or whether the landlords can afford to give it.

The large numbers of wealthy tenants enjoying the benefits of rent control—including such luminaries as a former mayor of New York City, a city housing judge, a state assemblyman, the U.S. Ambassador to the United Nations, and an heiress to the MCA fortune—have been well documented in the press.

This irrational system lacks even the appearance of logic, which underlies welfare-state redistributionism that requires the rich to subsidize the poor. Yet despite its irrationality, rent control has remained in force so many years for three primary reasons:

- Landlords are a small minority of the voting population.
- Landlords cannot pick up their properties and move them across state lines to escape such restrictions.
- A combination of envy and animosity toward landlords as a group has created a climate of public indifference to their plight.

One of the hallmarks of totalitarianism is the use of group stereotypes as a way of achieving certain ends. When Hitler said that "Jews are parasites sucking the life-blood of their hosts," he wasn't talking about one or two individual Jews; he was talking about *all* Jews. The deliberate vilification of a whole class of people fosters the hatred that is the first step in a campaign whose ultimate goal is the destruction of that group, as the world to its horror eventually discovered.

When I hear local politicians calling landlords, "greedy speculators gouging their tenants with unconscionable rents," they are not talking about one or two individual landlords; they are talking about *all* landlords. (By an interesting coincidence, in the Nazi party newspaper, *Völkischer Beobachter*, Jews were condemned as ". . . foreign

landlords who pocketed the money of German tenants.") Landlords are capitalists, and the anti-capitalistic mentality prevalent in Hitler's Germany may be found in America as well.

Propaganda has a powerful impact on public opinion. If you repeat something loud enough and long enough, a lot of people will believe it, no matter how preposterous the statement may be. When the Nazi press attacked the German Jews as vicious, unscrupulous, money-grubbing scoundrels—the same terms in which capitalists have been denounced for more than a century—even the Jews began to have doubts. Coincidentally, those are the very same adjectives used today by American politicians and journalists to describe American landlords.

When the *Village Voice* headlines the "Ten Worst Landlords of the Year," or former New York City Council President Andrew J. Stein's lists of "The Dirtiest Dozen Landlords," it seems to me that Herr Goebbels himself could not have planned a more effective propaganda campaign to discredit all landlords for the faults of a few.

Once the smear campaign has been effective, it is relatively simple to deprive the victims of their fundamental rights, and to do it in a tone of moral righteousness. After all, if New York landlords, or German Jews, are that despicable, they deserve to be treated as criminals.

In Germany, punishment for Jews arrived in the form of Adolf Hitler's Nuremberg Laws of 1935, a set of statutes designed to "protect" the German *Volk*. The government deprived Jews of their rights of citizenship as well the right to own any business or property.

As a result of those laws and the tacit permission they granted, the legal restraints and civil niceties normally observed between fellow citizens broke down and the floodgates of prejudice were opened wide. It became a profitable game for anyone to cheat, denounce, discriminate against, or confiscate the property of Jews without having the slightest pangs of conscience or suffering any legal consequences.

In New York, punishment for landlords came about as a result of the Rent Control Law of 1943, a set of statutes designed to protect the city's tenants from "rent gougers." The government officially deprived landlords of the most fundamental tenet of property ownership: the right to charge free market rents. Imposed during the War, the law was justified as a temporary wartime necessity.

After the war, however, when the vast majority of such emergency statutes were repealed across the nation, New York's rent control law, for various political reasons, was kept on the books. As a result of rent control and the tacit permission it grants, in New York City it is considered socially acceptable, if not morally praiseworthy, for tenants to cheat, denounce, discriminate against, or confiscate the property of their landlords without having the slightest pangs of conscience or suffering any legal consequences.

Most law-abiding New Yorkers would rather die than swipe a loaf of bread from their grocer; most would never dream of stealing a coat from their tailor. Yet these same people haven't the slightest qualms about violating their contracts and illegally subletting their apartments, falsifying their true primary residences, withholding rent for years by means of convoluted legal tactics, demanding enormous sums of money from landlords to move, or complaining to any one of a dozen government agencies about trivial or non-existent violations in order to thwart and delay legitimate rent increases.

A similar thing happened in Nazi Germany. There was a segment of the populace who did not necessarily approve of Hitler's treatment of the Jews, but who were all too ready to cash in on the results. They took advantage of the situation to enrich themselves at the expense of their Jewish neighbors.

I suppose it is an unfortunate failing of human nature, but when government gives people a license to steal, it takes a very highly principled person to resist the temptation. Our entire structure of political redistribution of wealth is based on an implicit

recognition of that fact. In New York City, for example, there is no penalty for defrauding your landlord or for committing any of the actions listed above. There is only reward for the unscrupulous tenant. Yet landlords are routinely given stiff penalties including fines, treble damages, and jail sentences for relatively minor infractions of the law.

The Jew in Germany had no remedy in law; the courts were in Hitler's pocket. Instructions to the police and Gestapo were well defined: The National Socialist state did not want the Jews, but it did want their property. The Jews had no choice but to abandon their property and flee—if they could.

The landlord in New York also has no remedy in law; the courts have upheld the city's right to control rents even though it violates the property rights guarantee of the Fifth and Fourteenth Amendments. With government policy dedicated to making rental property ownership a losing proposition, many landlords had no choice but to abandon their buildings and lose their life savings.

Since the imposition of rent control, the city has confiscated *in rem* 20,000 such abandoned structures containing over 100,000 apartments; at the time perfectly usable apartments that could have eased the city's chronic housing shortage and relieved the plight of the homeless. Instead, most of these buildings have turned into vacant wrecks giving refuge only to drug pushers, addicts, and prostitutes; mute testimony to the social cost of rent control.

Every election brings out an assortment of social-liberal candidates who try to outdo each other in currying the tenant vote by squeezing the landlord even harder. The imposition of commercial rent control as well as various proposals for permanent rent freezes and anti-warehousing legislation are

typical examples of such "enlightened" civic thinking.

Set against a background of landlord bashing, political pandering, and tenant avarice, it is no wonder that every time the city holds its Rent Guideline hearings, the meetings are dominated by rowdy, mob-frenzied, Brownshirt-like demonstrations by highly organized tenant activists who shout down opposition speakers and attempt to disrupt the proceedings.

In a lawsuit filed by five major real estate firms against the Rent Guidelines Board, affidavits by two members of the RGB claimed that they were unable to perform their duties, because "throughout the meeting there were threats, intimidation, and harassment. This was accompanied by incessant and deafening noise, demonstrators, whistling, chanting and banging of chairs."

I'm sure that none of the foregoing disgraceful situations was foreseen by those who originally drafted the rent control statutes. But illegal tenant activity, biased judges, hostile administrators, political opportunism, negative public opinion, and mob action against landlords are just as much in effect in New York as they were in Nazi Germany against the Jews—and they have turned rent control into a national travesty.

Despite the overwhelming evidence of the financial and social damage of rent control laws, politicians in New York, Berkeley, and Cambridge, among many others, have succeeded in keeping alive this iniquitous system that most Americans repudiated years ago.

It is time we Americans were jolted out of our complacency and made to see rent control for the evil it really is: bigotry pretending to be benevolence, anti-capitalism pretending to be humanitarianism, and demagoguery disguised as democracy. □

SEXUAL HARASSMENT: WHAT IS IT?

by Wendy McElroy

The issue of sexual harassment is shredding the fabric of the relations between men and women. Conservatives see laws against sexual harassment as further attacks on men and the free market. Feminists see sexual harassment as yet another outrage against women committed by men and the free market. Men fear to pay women compliments; some women feel harassed by every Southerner who calls them "honey." It is difficult to remember a time when there was less good will or humor between the sexes.

Meanwhile, employers rush to formulate policies they hope will insulate them from charges of sexual harassment, which the Equal Employment Opportunity Commission (EEOC) has ruled is a violation of Section 703 of Title VII of the 1964 Civil Rights Act. Because sexual harassment falls under Title VII (which defines the responsibilities of *employers*), it is employers who have become the targets of legal action. According to the EEOC guideline, employers are responsible for any sexual harassment within their businesses if they knew or should have known about the situation and if they took no immediate action to remedy the problem.

With all the controversy and liability that adheres to the issue of sexual harassment, one question becomes crucial: What is it?

Most feminists answer this question

Ms. McElroy is the editor of Freedom, Feminism, and the State (Cato Institute, 1982), which has been republished as a university text by Holmes and Meier.

quickly. The National Organization for Women has offered this definition: "any repeated or unwarranted verbal or physical sexual advance, sexually explicit derogatory statement, or sexually discriminatory remark made by someone in the workplace, which is offensive or objectionable to the recipient, or which causes the recipient discomfort or humiliation, or which interferes with the recipient's job performance."

The legal system has evolved its own standards. In general, the judiciary has divided sexual harassment into two categories: (1) a *quid pro quo*, by which sexual favors are directly traded for professional gain; and (2) a hostile working environment, in which women are threatened. In 1980, the EEOC concurred with this guideline by finding that sexual harassment includes physical, verbal, and environmental abuse. This guideline was affirmed unanimously by the U.S. Supreme Court in 1986.

It is the more subtle form of sexual harassment—"a hostile working environment"—that has caused most of the controversy and confusion. Companies and institutions across the continent scramble to clarify the specifics of this litigious issue. The policy advanced by the Presidential Advisory Committee on Sexual Harassment at York University in Toronto is fairly typical. York defined sexual harassment as: "unwanted sexual attention of a persistent or abusive nature, made by a person who knows or ought reasonably to know that such attention is unwanted; or, implied or expressed promise of reward for complying

with a sexually oriented request; or, implied or expressed threat of reprisal, in the form of either actual reprisal or the denial of opportunity, for refusal to comply with a sexually oriented request; or, sexually oriented remarks and behavior which may reasonably be perceived to create a negative psychological and emotional environment for work and study."

Such policies clarify nothing. Words like "unwanted," "abusive," and "perceived" are too subjective to allow a real sense of what behavior constitutes sexual harassment. Further attempts to reach a definition seem only to muddy the issue. For example, in September 1989, Harvard University issued a guideline that removed any connection between behavior and intent. In other words, sexual harassment can occur even though the transgressor was a man of good-will, with absolutely no intention of harm. In the section "Sexism in the Classroom," the Harvard guideline cautioned: "Alienating messages may be subtle and even unintentional, but they nevertheless tend to compromise the learning experience of both sexes. . . . For example, it is condescending to make a point of calling only upon women in a class on topics such as marriage and the family, imposing the assumption that only women have a natural interest in this area."

The 9th U.S. Circuit Court complicated the definition even more in a landmark decision. Judge Robert Beezer ruled that women are protected from any remark or behavior that a "reasonable woman" would have problems with. The court also embedded a double standard into the law by declaring that some behavior acceptable to men may be legally actionable by women.

No wonder men are resentful. They are being backed into a corner by accusations that seem to have no rules of evidence and little burden of proof.

Government Is Not Part of The Solution

I stumble into this quagmire with a unique perspective. As an individualist feminist, I

believe not only in the rights of women, but also in their dignity. I also believe that the free market is the best way for women to protect both. In short, although I think sexual harassment is a real problem, I don't want government involved in the solution.

I do not include assault or threat of assault in this discussion of sexual harassment. Such behavior is clearly a legal matter. By "sexual harassment" I refer only to behavior that is non-violent, however offensive it may be. In this, the law should have no part.

Yet—because women resort to lawsuits—sexual harassment is almost always discussed in legal terms. What is the exact definition of the offense? What constitutes evidence?

I want to ask more fundamental questions: (1) Can the law effectively address this area? Is it even possible for the courts to adjudicate and punish attitudes toward women? (2) Should the law address this area? What is the cost and danger of doing so?

To answer the first question it is important to appreciate that sexual harassment is an expression of some men's attitudes toward women. Since I don't believe government can successfully mandate attitudes, I think legal remedies are doomed to failure—or worse. A change in attitude can come only from a change in the hearts and minds of people. This cannot be legislated.

To address the second question: Should government control the bad attitudes of its people? The very prospect of this is horrifying. The worst oppressor in the history of women has been the state. When the state claims to be "protecting" me through paternalistic policies, I tend to reach for my dignity, if not for my wallet.

But the main reason to avoid the legal system is not historical. It is simply that sexual harassment doesn't violate anyone's rights.

What is the purpose of law in society? I believe the purpose of law is to protect individual rights, to protect self-ownership. Self-ownership means that every human being, simply by being human, has a moral and legal claim to his or her own body. Law comes into play only when a woman is a victim or initiator of force.

Contrast this with the view of law implicit in legislative attempts to prohibit or punish sexual harassment. Most feminists are trying to use the law to enforce a proper standard of morality or behavior, such as non-discrimination or respect for women. The law has become a means of enforcing "virtue." From this perspective, certain "bad" acts ought to be prohibited whether or not they are peaceful. In the case of sexual harassment, because men should not hold degrading opinions of women, the law punishes men whenever their unacceptable opinions are expressed in a public manner. The correct moral position becomes law.

I have great problems with imposing my moral views—however correct I believe them to be—on other people. I have trouble understanding how someone's bad attitude violates my rights. It seems to me that the most fundamental human freedom is the right to weigh evidence and reach a conclusion. People have a right to reach conclusions that I find wrong and offensive: They have a right to consider me inferior because of my sex. If I can take someone to court over his or her attitude toward me, this says that I have a right to tell them what opinions they are legally allowed to hold. More than this—it says that the government has a right to regulate opinions.

In *Time* magazine, Ellen Frankel Paul of Bowling Green State University commented on this grim prospect: "Do we really want legislators and judges delving into our most intimate private lives? Deciding when a leer is a leer and when a leer is a civil rights offense? Should people have a legally enforceable right not to be offended by others? At some point, the price for such protection is the loss of both liberty and privacy rights."

Which Standard?

Any attempt to impose "thought control" would be the death of individual freedom. And this is a freedom to which the weakest members of society (such as women) should cling. If moral and cultural standards can be imposed by law, ultimately it will not be the weak who decide "which standard."

Moreover, if government has the right to control and punish cultural attitudes, where will the cut-off point be? If it is proper to punish bad sexual attitudes, why not bad religious ones? Yet the political control of bad attitudes is precisely what sexual harassment laws are about.

A driving force behind these laws is socialist or radical feminism. In turn, this form of feminism is a building block of political correctness—the movement that considers virtually all of Western culture to be racist and sexist. Those who are politically correct seek to correct this injustice by championing the victims of Western civilization.

Dinesh D'Souza, in his controversial book *Illiberal Education*, defined these "victims": "Those who suffer from the effects of Western colonialism in the third world, as well as race and gender discrimination in America." In other words, women and minorities.

For the good of society, a persecution of "wrong" attitudes toward women has begun. I believe that a new inquisition is underway, one that is being driven by the political correctness movement. It is—in large part—an economic inquisition. One of the main battlefields has become the workplace. The heretics to be punished are those businessmen who do not express the politically correct attitude toward women.

And yet in condemning the political exploitation of abused women, I do not want to deny the importance of sexual harassment as a problem. Sexual harassment is an offense to the dignity and decency of human beings. To forswear the legal system is not to abandon the right of protest.

Many well intentioned men are like those who have never suffered from racism; they have a natural tendency to dismiss the suffering as not real. Many women share this reaction. Even the insightful commentator Jane S. Shaw declared:

"I'm skeptical about sexual harassment simply because during more than twenty years in the workforce, I never experienced anything that I would call sexual harassment. I have, however, experienced some awkward on-the-job situations that were

related to sex . . . They undoubtedly reflected uncertainty about appropriate behavior, especially as mores changed over the past couple of decades."

I cannot comment on Ms. Shaw's personal perceptions or her experiences. But I can add my own. For the last few years, I have achieved a modest status as a writer of documentaries. During this period, I have experienced no sexual harassment whatsoever.

Before this, I worked at whatever job I could in order to pursue writing at night. I entered the workforce at the lowest rung. In other words, I was an interchangeable unit. When I was a secretary, thousands of other women could have performed my job as well as I did. When I was an interchangeable unit, I relied heavily upon the common decency of my employers, who were men. Most were benevolent; a few lived up to the worst stereotypes of predatory men; one crossed the line into assault. Although I do not forgive any of the humiliations, only the assault was a matter for the law.

Most men are decent people who are busy living their lives. When the shrill and accusing cry of aggrieved women reaches their ears, they have the natural impulse to turn away. Because they see nothing of themselves in the male caricatures being presented, they dismiss the women as hysterical or man-hating. On at least one level, I can't blame them. Much of men's reactions come from the fact that women are using force, in the form of law, to impose standards of behavior upon them. And force is the death of discussion or sympathy.

Men are becoming so angry about sexual harassment that they are losing their sense of compassion for abused women. Every word in the workplace might become evidence in a legal proceeding. To them, women's cry for decent treatment resembles a witch hunt. Men's compassion has been replaced by exasperated demands for a list of things they are no longer allowed to say or do, for a clear definition of what constitutes sexual harassment. This is a fair question.

I freely admit that I cannot clearly define

sexual harassment any more than I can clearly define what is offensive. Sexual harassment is a subjective term that depends on the personalities and cultural backgrounds of the people involved.

But to say that the edges of a problem are gray, rather than hard and clean, is not to say that it does not exist. Racism is difficult to define, yet few people would deny its existence. Subjectivity is a good reason for keeping both sexual harassment and racism out of the court system, where the law requires a clear point of enforcement. But it is not a reason to ignore the pain of abused women.

The free market is not an arena of justice: It was never meant to be. It is simply a coordinating mechanism, by which supply and demand are balanced. Equally, the court system does not protect my dignity: That is not its proper purpose. It exists to protect my rights. It is up to me to stand up and protest any assault on dignity. Those who tell me to be silent or walk away are denying that I have this right of protest. No wonder so many women are turning to the law.

I would like to believe that my commitment to individual rights and to women's dignity are not in conflict. I do believe that an attack on sexism is not an attack on the free market: It does not deny the right of businessmen to hire and fire according to their own personal judgment. It does say: If an employer has the legal right to fire me, I have the legal right to protest, publicly and loudly, not from the witness stand of a courtroom, but from whatever platforms a free society allows.

Those who are hostile to the free market are using the issue of sexual harassment to gain political control of the workplace. They are having an easy time of it, because they seem to be the only ones addressing a genuine problem. The very intensity of women's indignation over sexual harassment should have alerted people to the need for a solution. But by blaming women, businesses have dismissed the problem. They have left it to others to voice the growing wellspring of anger. □

Do No Harm

by Jane M. Orient, M.D.

I am Jane Orient, Executive Director of the Association of American Physicians and Surgeons. I am in the solo practice of private medicine in Tucson, Arizona. I speak as a physician who is bound by the Oath of Hippocrates.

By my Oath, I must refrain from doing harm to my patients, and I must abstain from mischief and corruption. I may not promise my patient a three-minute remedy and then give her a deadly potion.

Furthermore, I must "follow that method of treatment which according to my ability and judgment I consider for the benefit of my patients." I may not subordinate my judgment to that of a secret council. I may not sacrifice my patient's welfare to a social agenda. I may not deny my patient a cancer treatment or heart surgery so that his resources can be used to benefit someone with a higher social priority, such as a person who is entitled to a free checkup.

I want the best medical care for my patients and for all Americans. We cannot provide the best until we get the cost down.

We will not lower costs by abolishing the Oath of Hippocrates and destroying the

patient-physician relationship. The Oath of Hippocrates dates to the fifth century B.C.; the acceleration of American medical costs dates to 1965.

Costs skyrocketed because the government got *into* medicine. Costs will not decrease until we get the government *out of* medicine:

out of private physicians' offices, where regulations are driving physicians out of business, especially in rural areas and inner cities;

out of hospitals, where compliance costs add a huge administrative overhead;

out of the pharmaceutical industry, where government adds \$250 million to the cost of marketing a single new drug;

out of the medical marketplace, where government intervention has destroyed the normal economic mechanisms that keep costs reasonable in a free market.

We need to bring *patients* back *into* the financial equation. We must allow *patients* to benefit from their prudent spending and saving decisions. All Americans should be permitted to use pre-tax dollars to establish their own medical savings accounts.

To preserve excellence in American medicine, we must preserve patients' freedom of choice—not turn it into the sham of picking Monolith A or Monolith B, both offering the same government-dictated benefits package.

If government forces us all into a bureaucratically managed system, we will still have something called "health care," delivered by persons called "health care providers." But such a system will have no place for ethical physicians, whose Oath forbids them to accept a situation of conflict of interest with their patients.

Government bureaucracy has never controlled costs. The promise of universal access to comprehensive service under a global budget and government rules is, in a word, bankrupt.

Government officials do not take an oath to do no harm. What a government system can accomplish is to destroy the art and science of medicine in these United States of America.

This article is adapted from a statement by Dr. Orient on behalf of the Association of American Physicians and Surgeons before the White House task force on health care reform, George Washington University, Washington, D.C., March 29, 1993.

BOOKS

Drug Policy and the Decline of American Cities

by Sam Staley

Transaction, 1992 • 257 pages • \$29.95

Reviewed by Doug Bandow

The drug war is raging on the streets of cities across America, but off the front pages. While Uncle Sam's expansive and expensive efforts to staunch the nation's taste for drugs have failed to end substance abuse, they have turned scores of urban areas into combat zones. Indeed, the war on drugs has become a war on cities. Observes Sam Staley, president of the Urban Policy Research Institute: "the policies that form the core of the Drug War strategy are hastening the destruction of central city economies by abrogating the institutions that are most likely to lead to economic rejuvenation: private property, respect for civil liberties, and smoothly operating markets."

Staley's book is important because he approaches his subject as a scholar rather than an ideologue. Although drug use and sales affect the entire nation, the consequences, particularly the pervasive violence, have fallen most heavily on urban America. Staley's thesis that the drug war is unwinnable is not unusual; what is unique is his conclusion that the drug war is inextricably linked to the catastrophic deterioration of the cities. But the relationship is a complicated one. Staley writes: "The ways in which public policy undermines the processes necessary for encouraging productive economic and social development requires an understanding of the changing economic environment of central cities."

He begins by reviewing the dynamics of urban growth and the illicit trade that has enveloped many cities. As last summer's

riots in Los Angeles obviously demonstrate, the state of many urban areas is not good. Particularly significant are the declines in population and employment. Moreover, the composition of city jobs has shifted from manufacturing to service. This has tended to encourage suburbanization and the creation of "ring cities" around shrinking centers.

Many factors have been working together to hinder urban economic growth. Staley focuses on the role of institutions—"the established customs, laws, and traditions that provide the underpinnings of any society." Unfortunately, government has long been less than friendly to these sorts of institutions. Virtually unbounded use of the so-called "police power" and eminent domain, for instance, has sharply restricted the value of private property rights. The ever more draconian drug war has damaged civil liberties and shredded the social fabric of many cities. Such political intervention, Staley argues, "undermines the very institutions that facilitate social progress," necessarily encumbering cities' economies.

Moreover, given the relative dearth of legitimate employment, drug trafficking has proved increasingly attractive for young black males. Indeed, the drug trade has helped fill the cities' economic gap, expanding as legal businesses shrank. Observes Staley, "some inner-city neighborhoods are now fueled principally by the drug economy."

Urban centers remained the locus of drug trafficking even as the suburbs expanded in part because of the large pool of unemployed labor available for the drug trade in cities. Moreover, urban neighborhoods offer significant advantages for both customers and dealers, including relative anonymity for participants, simple access to the market, numerous escape routes from police, and myriad hiding places for inventory.

The drug laws do not just skew individual behavior. They also warp the institutions discussed by Staley that arise naturally through the community's business and social interaction. In the case of the inner city, drug prohibition has unintentionally funneled billions of dollars to other criminal

enterprises, simultaneously encouraging entrepreneurial youth to enter the drug trade and rewarding the most violent criminals who do join. Moreover, the rules by which criminal drug gangs, which exist only because of drug prohibition, operate are not conducive to sustained urban economic development.

Thus, the drug war has not only denied legitimate firms the service of many of the brightest inner-city youth, but also undermined the rule of law and protection of property rights in the larger community and turned neighborhoods into deadly battlefields. Indeed, Staley emphasizes—and backs with evidence—the fact that drug-related crime is largely the result of the illegal nature of the business and not drug use. First, writes Staley, “the root of the criminal activity stemming from drug use flows from users’ inability to afford their habit” because enforcement increases drug prices. Second, dealers and users are able to settle disputes only through violence.

The direct consequences of pervasive lawlessness are hideous enough for people living in the inner city. But the indirect impact may be equally harmful in the long run. By sabotaging the very institutions necessary for community stability and economic growth, drug policy is impoverishing increasingly large sections of urban areas across the country. Sadly, writes Staley, “the negative attributes of the underworld now pervade the economic and social systems of American cities.”

Were the benefits of the drug war great enough, perhaps one could still try to justify current policy. However, the results of tens of billions of dollars worth of spending by all levels of government has been, in Staley’s words, “far from satisfactory.” Arrests,

prosecutions, and imprisonments all skyrocketed during the 1980s, along with expenditures, interdictions, and violations of civil liberties. Nevertheless, tens of millions of Americans still use illicit substances every year and even high school students say that drugs remain easily obtainable.

The only realistic alternative to the drug war, Staley argues, is decriminalization. He is realistic in assessing the impact of ending legal strictures against drug use. Serious social problems would remain, but they would, in his view, be more manageable, with drug use treated as a health rather than a legal and criminal issue. Decriminalization, then, he writes, “is offered as a first step toward refocusing drug policy on the human dimension,” a means of allowing “policymakers and policy analysts to focus on the consequences of drug use.”

Urban America is faltering for many reasons: welfare programs that destroy families and communities, schools that don’t teach, regulations that abrogate private property rights, laws that limit economic opportunity, the widespread use of drugs, and the lack of Christian ethics. But, as Staley demonstrates in his thoughtful, well-researched book, a serious problem is the drug war. Though undertaken with the best of intentions, the government’s crusade against drug use is undermining the institutions necessary for economic and social progress in the inner city. Unless we are willing to rethink this failed strategy, the nation’s large urban areas will continue to decline. □

*Doug Bandow is a senior fellow at the Cato Institute and a contributing editor to the Freeman. He is the author of *The Politics of Plunder: Misgovernance in Washington and Beyond Good Intentions: A Biblical View of Politics*.*

THE FREEMAN

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JULY
1993
VOL. 43
NO. 7

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$25.00 or more receive a subscription to *The Freeman*. Additional copies of single issues of *The Freeman* are \$2.00. For foreign delivery, a donation of \$40.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available on microfilm and CD-ROM from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. A computer diskette containing the articles from this month's issue is available from FEE for \$10.00; specify either 3½" or 5¼" format.

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FAX (914) 591-8910

Cover illustration: Old North Church,
Boston (Dover Books)

PERSPECTIVE

The Founding Fathers & "Equality"

What is "equality"? What did the Founding Fathers mean by the phrase "all men are created equal"?

Any inquiry into the meaning of equality must include an examination of the Declaration of Independence. The Declaration begins with an appeal to "the laws of Nature and of Nature's God," and maintains that the proposition "all men are created equal" is a self-evident truth. Furthermore, all men are endowed by their Creator with certain inalienable rights, among them "Life, Liberty and the pursuit of Happiness."

What the Founding Fathers meant by equality is this: All men share a common *human nature*. The assertion that all men are created equal means that all persons are the *same* in *some* respect; it does not mean that all men are identical, or equally talented, wise, prudent, intelligent, or virtuous; rather, it means that all persons possess the inherent capacity to reason.

In his fine work *Religion and Capitalism: Allies, Not Enemies*, Edmund Opitz explains that "the writers of our Declaration believed it axiomatic that 'all men are created equal.' They did not say '*are* equal' or '*born* equal,' which would deny the obvious; they said '*created* equal.' Equality before the law appeared to follow from this premise—the idea of one law for all men because all men are one in their essential humanness."

—HAVEN BRADFORD Gow

National Debt

I place economy among the first and important virtues, and public debt as the greatest of dangers. To preserve our independence, we must not let our rulers load us with perpetual debt. We must make our choice between economy and liberty or profusion and servitude. If we can prevent the government from wasting the labors of the people under the pretense of caring for them, they will be happy.

—THOMAS JEFFERSON

Good Intentions

Good intention will always be pleaded for every assumption of power. . . . It is hardly too strong to say that the Constitution was made to guard the people against the dangers of good intentions. There are men in all ages who mean to govern well, but they mean to govern. They promise to be good masters, but they mean to be masters.

—DANIEL WEBSTER

Private Property

Property is surely a right of mankind as really as liberty The moment the idea is admitted into society that property is not as sacred as the laws of God, and that there is not a force of law and public justice to protect it, anarchy and tyranny commence.

—JOHN ADAMS

Self-Deification

People frequently call socialism a religion. It is indeed the religion of self-deification. The State and Government of which the planners speak, the People of the nationalists, the Society of the Marxians and the Humanity of Comte's positivism are names for the gods of the new religions. But all these idols are merely aliases for the individual reformer's own will. In ascribing to his idol all those attributes which the theologians ascribe to God, the inflated Ego glorifies itself. It is infinitely good, omnipotent, omnipresent, omniscient, eternal. It is the only perfect being in this imperfect world.

—LUDWIG VON MISES

Letter to the Editor

In your November 1992 edition of *The Freeman*, John Hood represented that the

State of Wyoming has only five or six occupational licensing and regulatory boards, regulating only professions like doctors, lawyers, and dentists. Unfortunately, that is not the case.

Wyoming currently has 27 licensing and regulatory boards to protect the public from the evils of unregulated professional geologists and unlicensed hunting guides, for example. Several other threats to the public, such as dance hall operators, are licensed and governed by the board of county commissioners in each county.

Sincerely,

Clinton D. Beaver
Attorney-at-Law
Cheyenne, Wyoming

Protecting Life, Liberty, and Property

If the way we currently conduct the “war on drugs” means that agents will be gunning down innocent civilians in their own houses, perhaps it is time for a change in the laws regarding property confiscation.

The proper way to raise revenue is not through police-state tactics but only through the consent of the governed, by means of democratically passed laws. Government officials at all levels need to remember that under the American Constitution, the government exists to protect our God-given rights of life, liberty, and property, not to deprive innocent civilians of all three.

—K. L. BILLINGSLEY

Editor's note: For more on this subject, see Jarret Wollstein's “The Government's War on Property,” pp. 244–252, and Bruce Benson's “Highway Robbery,” pp. 253–255. Additional commentary by K. L. Billingsley appears on pp. 247 and 249.

THE GOVERNMENT'S WAR ON PROPERTY

by Jarret B. Wollstein

“A police dog scratched at your luggage, so we’re confiscating your life savings and you’ll never get it back.” In 1989, police stopped 49-year-old Ethel Hylton at Houston’s Hobby Airport and told her she was under arrest because a drug dog had scratched at her luggage. Agents searched her bags and strip-searched her, but they found no drugs. They did find \$39,110 in cash, money she had received from an insurance settlement and her life savings, accumulated by working as a hotel housekeeper and hospital janitor for more than 20 years. Ethel Hylton completely documented where she got the money and was never charged with a crime. The police kept her money anyway. Nearly four years later, she is still trying to get her money back.

Ethel Hylton is just one of a large and growing list of Americans—now numbering in the hundreds of thousands—who have been victimized by civil asset forfeiture. Under civil forfeiture, everything you own can be legally taken away from you without indictment, trial, or conviction. Suspicion of offenses which, if proven, might result in a \$200 fine or probation, are being used to justify seizure of tens or hundreds of thousands of dollars’ worth of property. Thousands of innocent Americans are losing their

Jarret B. Wollstein is a director of the International Society for Individual Liberty and the author of 300 published articles.

cars, homes, bank accounts, and businesses, based upon the claims of unidentified “informants” that illegal transactions took place on their property. Here are a few examples:

Thirty-year-old Ken Brown owned and operated Chemco, a small pool and gardening chemical supply company in Albuquerque, New Mexico. A few months after he opened his doors in 1986, agents of the Drug Enforcement Administration (DEA) stopped by and told him to “get out of the chemical business.” A year later Ken found out why: His chief competitor in Albuquerque had an arrangement with the DEA, and neither the DEA nor the competitor wanted any competition. When Ken refused to close his doors in 1987, harassment from the DEA began and got steadily worse. First his UPS packages were opened and inspected. Then his deliveries were seized, his drivers were searched, and his suppliers were threatened. Next his house was searched by armed DEA agents. They found nothing. On November 19, 1991, the DEA arrested his manager and padlocked the doors to Chemco. The IRS was also brought in to investigate the company. The DEA charged Chemco with selling chemicals that *could be used* to manufacture drugs. On May 8, 1992, the DEA seized Ken Brown’s house and cars, and told him to sign an agreement to pay rent to the U.S. Marshals or “hit the street with my wife and eight-year-old son.”

In May 1992 the DEA made Ken Brown an offer: "give us Chemco and we will give you all your personal belongings back." Ken Brown refused and is still fighting.

Dr. Jonathan Wright operated the Takoma Medical Clinic in Kent, Washington. On May 6, 1992, nearly two dozen armed police and Food and Drug Administration (FDA) agents broke down his clinic's door and pointed their weapons at him and his 15-person staff, mostly women. For the next 14 hours, the staff was held at gunpoint while the FDA ransacked the clinic. Neither Dr. Wright nor any of his employees was ever charged with a crime. That didn't stop the police and FDA from seizing Dr. Wright's books, laboratory equipment, supplies, patient records, reference books, and computers. The raid was part of a national FDA crackdown on nutritional therapists.

Willie Jones owned a small landscaping service in Nashville, Tennessee. When he paid cash for an airline ticket at Nashville Metro Airport on February 27, 1991, the ticket agent acted strangely, and said she would have to check in back what to do with the cash. The ticket agent returned and gave Mr. Jones his ticket. Ten minutes later, drug agents stopped and searched him. They found \$9,600 in cash, which Jones was going to use to buy plants for his business. Jones explained he pays in cash "because that's the way the growers want it." That didn't stop the DEA from taking his money. Jones was not charged with any crime. But the government took all of his operating cash, and nearly put him out of business.

Legal rights and protections that Americans have cherished for hundreds of years have been increasingly violated during the last two decades. Most of what you learned in school about your legal rights and protections is no longer true. A combination of rising crime, the growing power of government, and increasing concern about drugs has done tremendous damage to the Bill of Rights and our heritage of liberty. Few Americans realize how grave and how ominous that damage has been. Today the government has the power legally to seize your bank account, your house, or your

business, without trial, hearing, or indictment. Everything you have worked for and accumulated over a lifetime can now be taken away from you at the whim of authorities. Black or white, rich or poor, we are all potential victims. And unless the laws are changed, there is very little you can legally do to protect your property.

Civil Asset Forfeiture

The seeds of social disaster were planted in 1970 when Congress enacted the federal Racketeering and Corrupt Influence (RICO) statutes (greatly expanded in 1984). Although the rhetoric supporting RICO focused upon defeating "organized crime," the actual "crimes" targeted by RICO were rather vague. To be cited under RICO, all a person or firm need be suspected of are two instances of mail, wire, or securities fraud. "Fraud" is so broadly defined by RICO that the law covers virtually any offense involving mail, telephone, or stocks. Far from being limited to going after organized crime, RICO is now invoked in minor business cases, landlord-tenant disputes, anti-abortion protests, and even divorce cases.

Two aspects of RICO make it a particularly grave threat to civil liberties and justice: First, RICO effectively extended the jurisdiction of the federal government to nearly every conceivable property offense committed by anyone, anywhere in the United States. Second, RICO undermined our entire system of justice by giving the government the power to freeze or seize *all* of an individual's or company's assets based upon mere *suspicion* that an offense had occurred. No business can survive if its assets are frozen. A business that can't pay its bills and operating expenses is a bankrupt business. Because RICO sanctions are so potentially devastating, the guilt or innocence of a business under investigation by government agents becomes immaterial. The mere threat of RICO sanctions is sufficient to force even the largest company to plead guilty and make a deal.

RICO was only the first of many statutes passed in the last 20 years enabling govern-

ment agencies to seize property without indictment, trial, or conviction for any offense. The war on drugs and fear over growing crime have given us hundreds of new state, federal, and local laws, vastly expanding the government's power to seize and forfeit property. Because most new seizure laws are civil rather than criminal, the government does not even have to charge the owners of property with a crime before making seizures. Even if you are charged with a crime and acquitted, everything you own can still be seized and forfeited. When your property is civilly forfeited, you have no right to a court-appointed attorney, no right to confront your accusers, no presumption of innocence, and no protection from double jeopardy. Even the Constitutional right to trial by jury is frequently denied in civil forfeiture cases.

In 1974 the Supreme Court issued a landmark civil seizure decision in *Calero-Toledo v. Pearson Yacht Leasing Co.* In 1973 a \$20,000 yacht owned by the Pearson Yacht Leasing Co. was seized by and forfeited to the Customs Service in Puerto Rico. It seems that a group renting the yacht from Pearson used it to transport marijuana totally without Pearson's knowledge or consent. There was no judicial hearing prior to the seizure, nor was Pearson given any advance notice of the seizure.

In court, the U.S. authorities admitted that Pearson was neither involved in nor aware of any illegal activity on board the yacht while it was being rented. Still the Supreme Court held 8–1 that the yacht could be seized and forfeited anyway because the owner had not proven that he had done "all that reasonably could be expected to prevent the proscribed use of his property." The Court did not specify what Pearson would have had to do to protect his property from seizure because of activities of parties over whom he had no control. Should Pearson have searched his customer's suitcases or stationed a detective on board while his boat was being rented? Such procedures obviously would not be tolerated by anyone renting a yacht. Yet in the absence of such

police-state tactics, Pearson's yacht was fair game for seizure.

Civil asset forfeiture is based upon the medieval doctrine that when property is involved in a crime, the property becomes "guilty," and can be "arrested" and forfeited, regardless of the guilt or innocence of the property's owners. Under civil asset forfeiture, property—not an individual—is charged with an offense. The modern power of civil asset forfeiture in the United States dates back to the Civil War, when the Supreme Court affirmed the civil seizure of rebel property. In 1921 civil forfeiture was extended to violations of alcohol prohibition. During the 1980s, forfeiture was extended to drug trafficking and possession, and a host of other crimes, through the Comprehensive Crime Control Act of 1984, the Drug Abuse Act of 1986, and other laws. The power of civil asset forfeiture is being extended to virtually all misdemeanors and felonies.

Kathy and Mark Schrama of New Jersey can tell you just how destructive and uncontrolled government's seizure power now is. The police arrested the Schramas just a few weeks before Christmas 1990 at their home in New Jersey. Kathy was charged with taking a few UPS packages from neighbors' porches. Mark was charged with receiving stolen goods. They had never been previously convicted of any crime. If found guilty in criminal court, they could expect to pay a small fine and possibly receive probation. But the day after they were arrested, before there was any indictment or trial, before even a seizure warrant was issued, their house, cars, and possessions were all seized by New Jersey police. For the alleged theft of \$500 worth of packages, over \$150,000 in property was seized from Kathy and Mark Schrama, virtually everything they owned. The police even took their clothes, prescription medicines, eyeglasses, and Christmas presents for their 10-year-old son.

For anyone's home, car or business to be seized in America today, all government agents have to show is that they have "probable cause" to suspect that the property "might have been" involved in an

Last October 2, a drug task force composed of Los Angeles police, sheriff's deputies, DEA men, National Park personnel, and National Guard troops burst into the home of Donald Scott and shot him dead. The agents said they had come looking for marijuana but found none. The raiders' real motive was different.

The federal government had been attempting to acquire Scott's 200-acre ranch as part of its expansion plans for the Santa Monica Mountains National Recreation Area. But Scott, wealthy heir to a European chemical fortune, refused to sell. Then some officials decided to make an offer Scott could not refuse.

After the raid and killing, Scott's lawyer Nick Gutsue charged that the motive for the raid was to seize the ranch under federal forfeiture laws, which allow property to be confiscated even before a defendant is convicted. Police vigorously denied the charges, which many considered outlandish, until now.

On March 30, Ventura County District Attorney Michael Bradbury released a report which said that the drug investigators were motivated "at least in part, by a desire to seize and forfeit the ranch for the federal government." The raiders used an invalid search warrant based on false and misleading information. In fact, shortly before the raid, Border Patrol agents (how many federal agencies are needed on such a project?) twice searched the property for marijuana and found none. It turns out that Scott was staunchly anti-drug and regularly combed his property for plants which others may have placed there.

—K. L. Billingsley

offense. Totally innocent third parties are being dispossessed:

- In December 1988, Detroit police raided a grocery store to make a drug arrest, but failed to find any drugs. After police dogs reacted to three \$1 bills in the cash register, the police seized the entire contents of the cash register and a store safe, totalling \$4,384. According to a seven-year study by Toxicology Consultants, Inc., "An average of 96 percent of all the bills we analyzed from 11 cities tested positive for cocaine." If a drug residue is all that is necessary for police to seize cash, most currency in the U.S. could be seized tomorrow.

- In December 1983, Mary and Carl Sheldens learned through a local newspaper article that a house on which they held a second mortgage in Moraga, California, had been seized. The Sheldens had been forced to sell the house a few years earlier when Carl broke his back and was forced to retire. The man to whom they had sold their house had been charged with running a prostitution ring. When the house was seized it was

valued at \$325,000, and most of the equity was held by the Sheldens. Income from the house and Mary's job as a secretary was their only source of support. The person the Sheldens sold their house to ran several legitimate businesses and the Sheldens had no reason to suspect he was involved in any criminal activity.

Seizure of their house for the alleged crimes of another person began a 10-year ordeal for the Sheldens. While in the government's "care," the Sheldens' house was nearly destroyed by water damage and vandalism. The Sheldens discovered they couldn't foreclose against the federal government, and they had to go to court repeatedly to get authorities to keep up the mortgage payments. As a result of the continual battles with the U.S. government and fear of destitution, Mary was treated for depression and their 10-year-old daughter developed a borderline ulcer.

The Sheldens were lucky. They found a good attorney and were willing to fight. They eventually got their house back—after it was nearly destroyed from neglect and

water damage, and after they had incurred tens of thousands of dollars in legal fees.

No One Is Immune

During the last 20 years, civil asset forfeiture has evolved from a hook to snare organized crime to a broad net, trapping more and more middle-class Americans. Every Wednesday, *USA Today* newspaper publishes a list of Drug Enforcement Administration seizures. The vast majority of the items seized are not the luxury possessions of drug kingpins, but the modest possessions of ordinary Americans: small bank accounts, inexpensive cars, and modest homes.

In July 1991, the *Pittsburgh Press* completed "Presumed Guilty," a 10-month investigation of 25,000 seizures made throughout the United States by the DEA. They interviewed 1,500 prosecutors, defense lawyers, policemen, federal agents, and victims. They found that seizures are taking place throughout America; that many innocent people are losing their cases, cars, and homes; and that 80 percent of the people whose assets are seized are never even charged with a crime.

An April 1990 *Washington Post* report demonstrates the extent of asset forfeiture. According to the *Post*, in 1990 the U.S. Marshal's office had an inventory of over \$1.4 billion in seized assets, including over 30,000 cars, boats, homes, and businesses. Asset forfeiture has increased from \$27 million in 1985 to over \$644 million seized in 1991. In 1992 seizures topped \$1 billion. That's an increase of over 3,700 percent in less than seven years!

Financially strapped federal, state, and local government agencies are increasingly turning to the seizure of property as a source of revenue. Agencies making seizures can keep what they take, giving them a tremendous incentive to expand seizures. Allegations of offenses that, if proven in court, might result in a \$200 fine, are being used to justify civil seizure of tens or even hundreds of thousands of dollars' worth of property from ordinary, hard-working citizens.

Today *anyone* can become a victim of civil asset forfeiture:

- In Washington, D.C., Portland, Oregon, and many other cities, police have started seizing cars of men accused of soliciting for prostitution. The cars are subject to forfeiture even if the men are acquitted of the charge. The arresting officers are frequently policewomen dressed to look like streetwalkers.

- In 1990 in California under Operation Green Merchant, dozens of legitimate agricultural supply houses and mail order businesses were seized because the DEA claimed they might have unwittingly sold supplies to marijuana growers. Both the DEA and California courts considered the merchants' lack of control over how their grow lights and fertilizer might be used irrelevant.

- A new offense which can trigger total confiscation of your assets is the crime of "structuring." The Money Laundering Control Act of 1986 requires that banks send the IRS a Currency Transaction Report of all cash transactions (deposits or withdrawals) of \$10,000 or more. Section 5324 of the Money Laundering Control Act defines *structuring* as any action a person takes to avoid filling out a Currency Transaction Report. Penalties for violating this act include a mandatory five-year prison term, a \$250,000 fine, and forfeiture of any funds involved. If you withdraw \$10,000 from your own bank account *in three withdrawals* (rather than a single \$10,000 withdrawal) you could be charged with structuring.

Financial analyst Mark Nestmann tells this story in his book *How to Achieve Personal and Financial Privacy in a Public Age*:

In 1991, a 65-year-old Alabama physician had his life savings seized by the IRS because of alleged structuring in his bank account. Having experienced the Great Depression, the doctor kept his money deposited in several different banks

A long-time friend opened a bank nearby, and the doctor consolidated his life savings there. . . . a creative U.S.

Last year heavily armed men burst into a house in Oakdale, California and pinned 64-year-old retired ranch foreman William Hauselmann to the floor, bruising his back and cutting his face. They also held his 61-year-old wife, Marian, at gunpoint on the bathroom floor while they ransacked the place. "It was like they were on drugs," Hauselmann said.

Which was odd, because these were not criminals but Stanislaus County drug agents. They were acting on a tip that proved "180 degrees wrong," according to one officer. At least in this case no one was seriously hurt, as in another incident in Poway, California.

Last August 25, on a raid planned by the U.S. Customs service, a heavily armed DEA squad raided the house of Donald L. Carlson. Without announcing who they were, the agents began battering on Carlson's door. This roused Carlson from sleep and, thinking he was being robbed, he armed himself.

The agents smashed through the door and lobbed a concussion grenade. There was an exchange of fire. The agents hit Carlson three times. One bullet shattered his femoral vein, another hit him in the arm, and another entered his lung. The victim spent six weeks in intensive care, hooked to a ventilator. Carlson suffered permanent paralysis of the diaphragm. He will also lose some lung functions, and will suffer chronic pain and circulatory problems.

The agents found no drugs in the house, which was no surprise. Carlson is a vice-president of Anacomp, a Fortune 500 micrographics company. He has no criminal record and neighbors describe him as a "totally conservative" family man. The agents had been acting on the tip of a discredited informant known only as "Ron." According to federal sources, Ron had been kicked out of an anti-drug operation called Operation Alliance because his reports lacked truthfulness.

After the shooting, neighbors heard one agent tell the others: "Now get the story straight. He shot first." Carlson and his attorney have alleged a conspiracy to cover up the botched raid and filed suit for damages.

Criminals who kill and steal are often convicted and sometimes even executed. But government gunmen operate under a cloak of immunity. D.A. Bradbury said he didn't have enough evidence to charge anyone in Donald Scott's death. Likewise, no one has been charged for the shooting of Donald Carlson. Both cases were much more serious than the police beating of Rodney King.

—K. L. Billingsley

Attorney used Section 5324 to seize the entire account. The doctor, now a pauper, still faces five years' imprisonment.

Guilty Until Proven Innocent

What are your rights if your property is seized? The thinnest veneer of due process has been preserved by the courts in cases of civil asset forfeiture.

Unlike criminal cases, in which you are presumed innocent until proven guilty beyond a reasonable doubt, under civil asset forfeiture, justice is inverted. You are pre-

sumed guilty and you must *prove your innocence* before you can hope to reclaim your property. To take your property away from you temporarily, through legal *seizure*, a government agency merely has to claim that there is "probable cause" to suspect that you or the property were involved in an offense. To avoid seizure becoming permanent, legally sanctioned *forfeiture*, you have to be prepared to take on and prevail against the full power and resources of state and/or federal government.

What constitutes "probable cause" for seizure? Just about anything. Evidence ac-

cepted by courts as probable cause for seizure include: A car present in an area of "known drug trafficking"; suspicion of soliciting a prostitute; being accused by neighbors of stealing a UPS package; purchasing plant grow lights through the mail; a discussion about purchasing drugs overheard by government agents; employing a person who uses drugs; being among the first people to leave a plane; being among the last people to leave a plane; walking fast in a train station; walking slowly in a train station; a tip from an anonymous informant. In short, all "probable cause" means today is that some government agent has some reason to suspect you of violating some law—or they just want to get you. By current legal standards, virtually any property in America could be seized.

Even comparatively good state asset forfeiture laws provide little protection. If you live in a state where the laws don't permit seizure of homes without trial (such as New Hampshire), state agents can request that federal authorities *adopt* your case and—for a percentage of the take—seize your property under broader federal laws. This has the added advantage for the seizing authority of forcing you to fight the full legal and financial resources of the federal government, rather than "merely" the resources of a local or state agency.

Once your property is seized, all of the rules and procedures are slanted in the government's favor. Seizing authorities have an unspecified period of time to notify you that your property is subject to forfeiture. Typically notice is sent out six months after property is seized. Once notice of forfeiture is mailed, you have usually 20 to 30 days to reply (in California, you have only eight days!). Notice is sent to your last known address, which is a neat trick if your house has just been seized and you have been evicted. For one reason or another, many victims of seizure never receive any notice. This is unfortunate, because failure to challenge a forfeiture notice within 20 to 30 days of its being mailed results in immediate and generally uncontestable forfeiture.

If you do receive notice that your prop-

erty is about to be forfeited, you are usually given two options to challenge: You can request an administrative hearing before the forfeiting agency or you can post bond and demand a trial.

The administrative petition "option" is basically a sham. According to District of Columbia attorney Brenda Grantland, government agencies seizing property, like the DEA, FDA, and police, never grant an administrative hearing and virtually never find for the victim. Once they take your property, they intend to keep it. If you make the mistake of requesting an administrative hearing, you generally have no further procedural rights, and your property will be gone forever.

What about the trial option? To get a trial you usually have to post a bond equal to 10 percent of the value of the seized property. This "fee" is used to finance the government's legal expenses in fighting your lawsuit to get your property back. Where can you get the money once the government has seized your house and bank account? If you can't beg or borrow the money, you have again probably reached a dead end, resulting in permanent forfeiture of your property.

To go to trial effectively against a government agency you must also be prepared to spend \$10,000 to \$100,000 in legal fees. The Supreme Court has ruled that in civil cases you have no right to a publicly financed, court-appointed attorney. All legal expenses come out of your own pocket, and can't be recovered even if you win in court.

You have another major problem if you want to hire an attorney: If the government alleges that the money you use to pay your attorney was derived from illegal activity, the attorney's fee is also subject to seizure, either before or after trial. Again the government need prove nothing to seize your attorney's fee. Few attorneys work for free. Consequently, if the government doesn't want you to have the counsel of your choice, authorities need merely hint that they may confiscate your attorney's fee, and it will become nearly impossible for you to obtain legal representation.

If you do manage to go to trial, you will

discover that you have been placed in the position of being required to prove a negative: namely, that your property was never involved in any illegal activity. The Supreme Court has ruled that once authorities have shown "probable cause" to seize your property, you have the burden of proving the property's "innocence." To establish your property's innocence, the courts will demand that you prove that all of the income you ever earned to pay for the property was legally acquired; that all taxes due have been paid; that neither you nor any members of your family ever engaged in any illegal activities on your property "with your knowledge or consent"; and so on. Failure or inability to provide any of the information demanded by the court is usually regarded as proof of your property's guilt. What if your business records have also been seized along with the rest of your property? The seizing agency may or may not return your records to you in time for you to meet legal deadlines to stop forfeiture of your property.

The very absurdity of the forfeiture laws makes it difficult to win in court. The government does not have to show the seizure was reasonable, but merely that it was "not inconsistent" with existing laws. When you contest a civil seizure you find yourself in a distorted Alice-in-Wonderland world where logic and justice have no force.

Should you demand a jury trial to contest seizure, the presiding judge has the power to declare that there is insufficient cause to hold a trial, and issue a motion for summary forfeiture of your property. Should you actually get a jury trial and the jury appears sympathetic to you, the judge can summarily decide that no "issues of fact" are involved in your case, dismiss the jury, and issue a directed verdict for your property to be forfeited. Even if you win a jury trial, the forfeiting agency can still appeal, since in a civil forfeiture case double jeopardy doesn't apply. So you can be forced to spend \$10,000 to \$100,000 each for trial after trial, until you give up or are impoverished.

Judy Osburn, whose California ranch was "arrested" on September 20, 1988, and who

went through two trials to get her property back, summarizes the "justice" you can expect if your property is forfeited by the government, in her 1991 book *Spectre of Forfeiture*:

Most of the protections afforded by the Constitution to individuals do not apply in civil forfeiture suits. The Fifth Amendment's due process requirement of "innocent until proven guilty" is reversed. Under most civil forfeiture statutes, upon the government's showing of probable cause to initiate proceedings, the property is presumed guilty until the owner proves its innocence. Because it is not a criminal proceeding protection from double jeopardy and cruel and unusual punishment are side stepped along with the defendant's right to counsel. An incarcerated owner does not necessarily have the right to be present at the forfeiture proceeding. And the right to a jury trial is automatically waived without notice unless demand is made within the specified time. If the property was seized on navigable waters there is no right to trial by jury.

The End of Justice

If civil asset forfeiture continues to spread, it will mean the end of justice in America. Already government agencies and police are beginning to concentrate their activities on cases where there are appreciable assets available for seizure. Police, DEA, and FBI *forfeiture squads* are being created. Government agents can even take a three-and-one-half day course offered by the Jefferson Institute on how to maximize asset forfeitures. Indeed, why should law enforcement agents engage in expensive and dangerous activities like apprehending murderers, thieves, and rapists, when seizing the property of ordinary, defenseless citizens is so much safer and more profitable?

Laws already on the books are just a preview of worse to come. Enhanced asset forfeiture laws are now pending before Congress and in most states. The 1991 Omnibus Crime Act—already passed by Congress, but vetoed by George Bush for being "too

soft" on crime—increases the time government agencies have to return *improperly* seized property from six months to six-and-one-half years after final court proceedings. California State Assembly Bill 1705 allows the seizure of restaurants, bars, ranches, hotels, and apartment buildings if a single person claims that illegal drugs were ever used or sold on the premises "with the knowledge or consent" of an owner or manager. This bill, already passed by one house of the California legislature, even permits the police to create a secret list of property to be seized once the law goes into effect in 1998. Then all listed property can be seized, in a rapid government sweep.

Another indication of the spread of asset forfeiture is expanding use of the "relation back" doctrine. This is a bizarre legal doctrine which asserts that any property used to commit a crime really belongs to the government *from the moment* an offense was committed, even if the property involved was never seized and the "crime" was not detected until many years later. Under the "relation back" doctrine, not only is "guilty property" subject to forfeiture, but any income or profits earned from the property is also subject to forfeiture, from the time the property was "guilty" of the crime.

Here's how the "relation back" doctrine works: Suppose that in 1994 the Department of Housing and Urban Development (HUD) claims that in 1988 you allowed illegal drug use in an apartment building you owned. Under "relation back," HUD could not only seize your apartment building, but it could further demand you forfeit any apartment rent you received between your offense in 1988 and the present. Not only would you end up impoverished, but HUD could also put a lien on all of your future

earnings and possessions, effectively making you an indentured servant to the state for the rest of your life. Under the "relation back" doctrine, even stockholders' shares and dividends could be seized based upon allegations that the parent company committed an offense. The National Association of Attorneys General says the "relation back" doctrine has "great promise" for the future of law enforcement in America.

There Is Some Reason for Hope

As appalling as the present situation is, there is *some* reason for hope.

In the fall of 1992, Representative John Conyers of Michigan held Congressional hearings on civil asset forfeiture. After the hearings, he pledged to oppose the more outrageous elements of forfeiture.

In February 1993, the Supreme Court rejected the Department of Justice's position that the government could *confiscate the assets of innocent people* if some of the money used to purchase the asset came (in whole or part) from illegal activities. The Supreme Court has also agreed to hear several cases challenging forfeiture.

In California, an anti-forfeiture coalition led by FEAR (Forfeiture Endangers American Rights) successfully prevented two new draconian asset forfeiture bills from passing.

More and more organizations are now fighting asset confiscation, including FEAR, the International Society for Individual Liberty (ISIL), Stop Forfeiture of Children's Homes, the Drug Policy Foundation, and the Criminal Justice Policy Foundation.

If civil asset forfeiture is not stopped, it will mean the end of justice in America, the end of liberty, the end of America as we know it. □

HIGHWAY ROBBERY

by Bruce Benson

In 1863, Henry Plummer was sheriff of the gold camp at Bannock, Montana. He also organized a gang of about 100 "road agents" who stole from miners and travelers; his deputies were horse thieves, stagecoach robbers, and murderers. Citizens could do something about highway robbery by their sheriff in 1863, however. Since Plummer was breaking the law, a vigilante committee arrested, tried, and hanged him in short order, along with 21 members of his gang, banished several others from the area, and frightened off most of the rest.

Today, the sheriff of Volusia County, Florida, also leads an organized band of "road agents" who confiscate cash from travelers on Interstate 95. His road agents are called the "drug squad" and they have seized an average of \$5,000 per day from motorists during the 41 months preceding June 1992: over \$8 million dollars since 1989. But Floridians cannot do anything about this highway robbery, because it is perfectly legal under the state's asset seizure law.

Such highway robbery is being "justified" as part of a "war on drugs." Actually, however, most Volusia County seizures involve southbound rather than northbound travelers, suggesting that the drug squad is more interested in seizing money than in stopping the flow of drugs. In fact, no criminal charges were filed in over 75 percent of the County's seizure cases. But more

significantly, a substantial amount of money has been stolen from innocent victims. In order to get their money back, these people must undertake an expensive civil trial to prove their innocence, something most decide they cannot afford to do.

Our criminal justice system presumably is based on the premise that someone is innocent until proven guilty, because it is better to err on the side of letting a guilty person go free than to err by punishing someone who is innocent. Florida's asset seizure law has turned this presumption on its head. The sheriff argues that it is better to hurt a few innocent victims than to take a chance on letting a guilty drug trafficker's money through (although the trafficker is usually free to go).

In fact, the sheriff apparently feels that fining innocent victims a few thousand dollars for carrying cash is okay, since money is not returned even when the seizure is challenged, no proof of wrongdoing or criminal record can be found, and the victim presents proof that the money was legitimately earned. Three-fourths of Volusia County's 199 seizures that did not include an arrest were contested. The sheriff employed a forfeiture attorney at \$44,000 a year (he moved to private practice in mid-1990, but now is paid \$48,000 to consult with the sheriff's department regarding how much to give back) to handle settlement negotiations. Only four people ultimately got their money back, one went to trial but lost and has appealed, and the rest settled for 50 to 90 percent of their money after promising

Bruce Benson is Distinguished Professor of Economics at Florida State University.

not to sue the department. How many were drug traffickers? No one knows, since no charges were filed and no trials occurred, but it is clear that several were innocent victims.

A 21-year-old naval reservist had \$3,989 seized in 1990, for instance, and even though he produced Navy pay stubs to show the source of the money, he ultimately settled for the return of \$2,989, with 25 percent of that going to his lawyer. In other similar cases the sheriff's department kept \$4,750 out of \$19,000 (the lawyer got another \$1,000), \$3,750 out of \$31,000 (the attorney got about 25 percent of the \$27,250 returned), \$4,000 of \$19,000 (\$1,000 to the attorney), \$6,000 out of \$36,990 (the attorney's fee was 25 percent of the rest), and \$10,000 out of \$38,923 (the attorney got one third of the recovery).

Federal Forfeitures

The Volusia County sheriff's department is not the only law enforcement agency that has turned to highway robbery in response to asset seizure laws. Federal forfeitures have taken in \$2.4 billion since 1985. The Drug Enforcement Administration seizes millions of dollars at ports, airports, and bus stations; Congress began investigating alleged abuses by the DEA in May of 1992. Whether large portions of the seizures come from criminals or not cannot be determined since many do not involve arrests, and the costs associated with recovering wrongfully seized assets from the federal authorities can run into thousands of dollars. Many other states have laws similar to Florida's, and for those that do not, the Comprehensive Crime Act of 1984 established a system whereby any local police department which cooperated with federal drug enforcement authorities in an investigation would share in the assets confiscated.

The 1984 federal confiscations legislation followed a period of active advocacy by federal, state, and local law enforcement officials who suggested that it would foster cooperation between their agencies and increase the overall effort devoted to drug

control and its effectiveness; that is, law enforcement bureaus maintained that they needed to be paid to cooperate, whether the cooperation was in the public interest or not.

It was not until a few years after the effects of the legislation could be seen that strong opposition arose. It became clear that the federal legislation was being used to circumvent state laws and constitutions that prohibited certain forfeitures or limited law enforcement use of seizures. For example, North Carolina's Constitution requires that all proceeds from confiscated assets go to the County School Fund. Law enforcement agencies in those states where state law limited their ability to benefit from confiscations began using the 1984 legislation to circumvent their laws by "routinely" arranging for federal "adoption" of forfeitures, whereupon 80 percent is passed back to the state and local law enforcement agencies, since the federal law mandated that shared forfeitures go exclusively to law enforcement.

Section 6077

As education groups and others affected by this diversion of benefits recognized what was going on, they began to advocate a change in the federal law. They were successful, as the Anti-Drug Abuse Act of 1988 (passed on November 18, 1988) changed the asset forfeitures provision. Section 6077 of the 1988 statute stated that the attorney general must assure that any forfeitures transferred to a state or local law enforcement agency "is not so transferred to circumvent any requirement of State Law that prohibits forfeiture or limits use or disposition of property forfeited to state or local agencies." This provision was designated to go into effect on October 1, 1989, and the Department of Justice interpreted it to mandate an end to all adoptive forfeitures.

State and local law enforcement officials immediately began advocating repeal of Section 6077, of course. Thus, the Subcommittee on Crime heard testimony on April 24, 1989, advocating repeal of Section 6077 from such groups as the International As-

sociation of Chiefs of Police, the Florida Department of Law Enforcement, the North Carolina Department of Crime Control and Public Safety, and the U.S. Attorney General's Office. Perhaps the most impassioned plea for repeal was made by Joseph W. Dean of the North Carolina Department of Crime Control and Public Safety, who both admitted that law enforcement bureaucracies were using the federal law to circumvent the state's constitution and that without the benefits of confiscations going to those bureaus, substantially less effort would be made to control drugs:

Currently the United States Attorney General, by policy, requires that all shared property be used by the transferee for law enforcement purposes. The conflict between state and federal law [given Section 6077 of the 1988 Act] would prevent the federal government from adopting seizures by state and local agencies.

. . . This provision would have a devastating impact on joint efforts by federal, state and local law enforcement agencies not only in North Carolina but also in other affected states. . . .

Education is any state's biggest business. The education lobby is the most powerful in the state and has taken a position against law enforcement being able to share in seized assets. The irony is that if local and state law enforcement agencies cannot share, the assets will in all likelihood not be seized and forfeited. Thus no one wins but the drug trafficker. . . .

. . . If this financial sharing stops, we will kill the goose that laid the golden egg.

This statement clearly suggests that law enforcement agencies focus resources on enforcement of drug laws because of the financial gains for the agencies arising from forfeitures. Apparently it is not the fact that

drugs are illegal which induced the massive post-1984 War on Drugs, but the fact that forfeitures generate benefits for police.

The implication that law enforcement agencies benefit from the discretion arising through forfeitures was also corroborated by other testimony. In fact, a statement by the U.S. Attorney for the Eastern District of North Carolina, in support of repealing Section 6077, actually implied that law enforcement agencies were focusing on confiscations as opposed to criminal convictions: "Drug agents would have much less incentive to follow through on the assets potentially held by drug traffickers, since there would be no reward for such efforts and would concentrate their time and resources on the criminal prosecution." But isn't that what they are supposed to do? Nonetheless, the police lobbies were successful. A repeal of Section 6077, retroactive to October 1, 1991, was hidden in the 1992 Defense Appropriations Bill.

It is time to rethink asset seizure laws. By making victims prove their innocence before their assets are returned, long-standing constitutional protections of due process are being overturned. Assets should not be seized unless an arrest is made and they should not be kept unless a conviction follows. Furthermore, by giving the seizures to the police department that makes them, we are creating incentives for legalized highway robbery. Seizures of assets used in the process of committing a crime or assets purchased with ill-gotten gains may be a good idea. However, if this is the case, then police should willingly make seizures no matter who gets the seized assets, and they should be eager to ensure that innocent victims get their assets back. If seizures are warranted, they should go into the general fund or into a restitution program for crime victims. Then maybe the incentives for police to commit legalized highway robbery would come to an end. □

MORALITY IN AMERICA

by Norman S. Ream

Early in the nineteenth century the brilliant French observer Alexis de Tocqueville gave this estimate of America and Americans in his book *Democracy in America*: "There is no country in the world where the Christian religion retains a greater influence over the souls of men than America."

A similar assessment could not be made at the end of the twentieth century. That is not to say that the Christian religion exercises any great influence over the souls of men in any nation today, but the loss of its original influence is certainly as great if not greater in the United States than anywhere else. Substitute the words "morality" or "ethics" for the words "Christian religion" and their influence would still be seriously questionable. One might perhaps even put it this way and not be far from the truth: *There is no country in the world where the Christian religion has lost more of its moral influence over the souls of men than in America.*

The high moral principles of the Christian religion have been corrupted by greed and envy, and greed and envy have caused and been exacerbated by the very programs America's politicians have adopted in a misguided effort to eliminate poverty and inequalities of all kinds. It is impossible to have both liberty and equality, for the attempt to achieve the latter will always de-

stroy the former. When government assures its citizens that they are entitled to be equal it does two things: It levels by pulling down those at the top, and it engenders greed and envy in those at the bottom.

There was once a commonly observed moral philosophy or moral culture in America, but that is no longer true. Today Americans have few generally held convictions concerning good and evil, right and wrong, morality and immorality. In part it is the consequence of our heterogeneous population resulting from the vast numbers of immigrants from countries of different cultures. Those who had been so anxious to come to America and enjoy its blessings have often brought with them philosophies and cultures inimical to those held by earlier settlers. As a consequence they have helped destroy the very blessings they sought. But the descendants of those earlier settlers have abandoned their forebears' beliefs, and this has been a major factor in the waning of Christianity and ethics in America.

The generally held moral principles which once guided human action in America had their roots in the Christian religion as Tocqueville pointed out. One can argue that the Founding Fathers did not always agree in their interpretation of that religion—some were deists—but the great majority of them drew their moral and ethical guidelines from the Ten Commandments and the teachings and example of Jesus of Nazareth. They were of one mind in their conviction that there should be freedom of religion for all.

Dr. Ream, who served for many years as pastor of the First Congregational Church, Wauwatosa, Wisconsin, lives in retirement with his wife in Estes Park, Colorado.

Religious Beliefs of the Founders

The most orthodox and ardent believer among the principal figures urging freedom from the constraints of England and King George III was Samuel Adams, who with other Sons of Liberty dumped the tea into Boston Harbor. A stern Calvinist, he believed liberty was dependent on the moral and spiritual principles enunciated in the New Testament. In a letter to John Scollay in 1776 he wrote,

Revelation assures us that Righteousness exalteth a nation—Communities are dealt with in this world by the wise and just Ruler of the Universe. He rewards or punishes them according to their general character. The diminution of public virtue is usually attended with that of public happiness, and the public liberty will not long survive the total extinction of morals.

At the other extreme, if it can be called extreme, was the deist Thomas Paine, whom Theodore Roosevelt is once said to have referred to as a “filthy little atheist.” In 1797, however, Paine started a movement in Paris to combat atheism. He did not believe in revelation nor did he believe the Bible was divinely inspired, but in the *Prospect Papers*, published in 1804 by Elihu Palmer, he wrote: “It is by the exercise of our reason that we are enabled to contemplate God in His works and imitate Him in His way. When we see His care and goodness extended over all His creatures, it teaches us our duty toward each other, while it calls forth our gratitude to Him.”

The idea that many if not most of the Founding Fathers were atheists or agnostics is incorrect. Not only were they devoutly religious, but they firmly believed that liberty and justice depended on an observance of the moral and ethical demands of the Christian religion.

Benjamin Franklin wrote to Ezra Stiles in 1790 that “As to Jesus of Nazareth, my opinion of whom you particularly desire, I think the system of morals and His religion, as he left them to us, the best the world ever saw or is likely to see. . . .”

It was Franklin who urged the delegates to the Constitutional Convention to begin the sessions with prayer: “I have lived, Sir, a long time, and the longer I live, the more convincing proofs I see of this truth—that God governs in the affairs of men. And if a sparrow cannot fall to the ground without His notice, is it probable that an empire can rise without his aid?”

Our first president, George Washington, rarely spoke of his religious beliefs but on one occasion wrote a letter to the Philadelphia-area clergy in which he stated his conviction that “Religion and morality are the essential pillars of Civil society. . . .” In his Farewell Address he declared, “Of all the dispositions and habits which lead to political prosperity, Religion and morality are indispensable supports.”

When he took the oath of office in New York, Washington did so with his hand on the Bible and afterward bent down and kissed the book.

Washington’s successor in office, John Adams, in an 1810 letter to Benjamin Rush wrote, “. . . religion and virtue are the only foundations, not only of republicanism and of all free government but of social felicity under all governments and in all the combinations of human society.”

Alexander Hamilton believed it was man’s relationship to God that gave birth to man’s natural rights: “The Supreme Being . . . endowed him with rational faculties, by the help of which to discern and pursue such things as were consistent with an inviolable right to personal liberty and personal safety.”

Thus did the Founding Fathers state in various ways their firm conviction that a nation desiring individual freedom and national prosperity must be guided by high standards of morality and ethics and that such a moral philosophy could only grow out of a strong religious faith.

The Dissolution of Moral and Ethical Standards

Something has happened to the soul of America and millions of Americans know that what has happened is not good. Even

some politicians recognize it and try to convince the electorate that the answer lies in the political arena. The answer, however, is certainly not to be found there. Politics is merely a reflection of the moral and ethical principles of society at large.

We have been urged over and over again by certain individuals and groups to become a value-free society, and that in large part is what we have become. A recent candidate for high office in Colorado insisted, as have many others, that values should not be taught in the public schools. One is tempted to ask if cheating should be acceptable and whether the purpose of public schools is to dump graduates into the work force with no concern for their character and integrity.

Today, lacking any commonly held moral and ethical principles, the test for government activity is not "is it moral and right?" but "is it politically expedient?" Instead of applying the test of sound morality and sound economic principles, political activity is tested by the reactions and pressures of minority groups. There is little distinction any more between morality and legality. Politically inspired legislation makes something right or wrong merely because it is the law and not because it is in harmony with eternal principles tested by 2,000 years of history. John Quincy Adams voiced the truth held by the Founding Fathers:

This principle, that a whole nation has a right to do whatever it pleases, cannot in any sense whatever be admitted as true. The eternal and immutable laws of justice and morality are paramount to a legislation. The violations of those laws is certainly within the power of a nation, but is not among the rights of nations.

The late Leonard Read, founder of The Foundation for Economic Education, was fond of saying that "Economics is a branch of moral philosophy." He was right, of course, but he could have gone further. The attempt to separate economics, political activity, or any other field from sound principles of morality is to guarantee failure. No

policy or program which fails morally can be ultimately successful. Take for example our huge national debt. It is immoral to foist upon future generations a burden caused by our own profligacy. We are now beginning to see the grave consequences of that immorality. The recent situation in California where employees of the state were being paid in IOU's is but a small foretaste of what will almost certainly happen elsewhere.

The Founding Fathers were strongly in favor of religious freedom for all citizens and wanted no religious test for those seeking federal office. Many of those early statesmen were indeed unorthodox in their religion, but they nevertheless were strongly of the opinion that without belief in a divine Creator and in the basic moral and ethical teachings of Jesus no lasting freedom in America could be achieved. They never rejected God nor lost their respect for religion. Moral man and religious man could not be separated.

As Washington, Adams, and Madison knew, morality springs out of religious faith and a people with little or no Christian theology will have a seriously impaired moral philosophy. That leaves us with an important insight regarding the direction in which America and Americans should go.

The crisis facing America and Americans today is not an economic nor a political one. It is a moral and spiritual crisis. It is a crisis of character which has produced a crisis of behavior. It is a poverty of values caused by a poverty of faith. We remove all value judgments from society and then wonder why we have a generation that is morally confused.

Our society has continually and increasingly dismissed the relevance of religion and as a consequence has for masses of people diminished its importance. If religion is ignored or banned then its components such as the Ten Commandments and the teachings of Jesus are likewise made irrelevant and we arrive at the conclusion that "if there is no God then anything is permissible." It is difficult to believe there are many who will rejoice in such a culmination. □

THE FEAR OF INDIVIDUALISM

by Tibor R. Machan

One of America's most important gifts to the world was the political philosophy of individualism. The central tenet of this idea is that every human being is important, especially from the point of view of law and politics, as a sovereign individual, not living by the permission of the government or some master or lord. That is the basic idea underpinning not only the democratic process, the First Amendment of the U.S. Constitution, and the various prohibitions addressed to the government concerning how to treat the citizenry, but the free market economic system as well.

Individualism and Capitalism

The free market system or capitalism is founded on the doctrine that each person has a basic right to private property in his or her labor and what he or she creates and earns freely and honestly. The economic idea of freedom of trade—in labor, skill, goods, services, etc.—rests squarely on individualism. No one is anyone else's master or servant. No involuntary servitude except as punishment for crime is permitted. Thus everyone has the basic right to engage in free trade—as in any other kind of peaceful action, even when his or her particular

Tibor Machan is a philosophy professor. He was smuggled out of Communist Hungary in 1953 and has lived in the United States since 1956.

decision may not be the wisest or even morally exemplary.

In an individualist society the law upholds the idea that everyone is free to choose to associate with others on his or her own terms—whether for economic, artistic, religious, or romantic purposes. Not that all the choices people make will be good. Not that individuals are infallible. Not that they cannot abuse their freedoms. All of that is granted. But none of that justifies making others their masters, however smart those others may be. To quote Abraham Lincoln, “No man is good enough to govern another man, without that other’s consent.”

But today the political philosophy under the most severe attack in many intellectual circles is individualism. From leftover Marxists to newly emergent communitarians, and all the way to democratic pragmatists—in the fields of political economy, sociology, and philosophy—everyone is badmouthing individualism. It picked up several years ago with the publication of Robert N. Bellah's book *Habits of the Heart, Individualism and Commitment in American Life*, and continues with innumerable related efforts, including the launching of the journal *The Responsive Community* and the publication of a new book by Bellah, *The Good Society*, as well as Amitai Etzioni's just-published *The Spirit of Community*.

These and many other efforts constitute a

concerted attack against the individual and his rights. Perhaps predictably, the efforts involve gross distortions of what individualism actually is. It is supposed to foster disloyalty to family, friends, and country. It is supposedly hedonistic and instills anti-social sentiments in people. It is allegedly purely materialistic, lacking any spiritual and cultural values.

But such distortion is accomplished by focusing selectively on a very limited area of individualist philosophy, one employed mostly in technical economic analysis and serving merely as a model by which to understand strictly commercial events in free market economies. An exclusively economic conception of the human individual is admittedly barren—it treats everyone as nothing other than a bundle of desires. But this is not very different from the way every science employs models, taking a very simple idea to make sense of a limited area of the world.

Individualism, True versus False

The anti-individualists do not look at individualism as it is developed by social thinkers such as Frank Chodorov, F. A. Hayek, or Ayn Rand, let alone by some of their contemporary students who are developing these ideas and showing how vibrant a political system and culture can be when human beings are understood as individuals. The sheer creative power of human beings should make clear that their individuality is undeniable, crucial to every facet of human living, good or bad. Yet, this essential individuality of every person by no means takes away the vital role various social affiliations play for them; human individuals are social beings.

The kind of community worthy of human life is intimately tied to individualism; such a community, even if the most suitable setting for human living, must be chosen by the individuals who occupy it. If this is subverted by forcing individuals into communities, those involuntary communities will not be genuine communities at all.

Individual choice and responsibility are essential to human flourishing.

Indeed, in America, where individualism has flourished more than elsewhere, there are millions of different communities to which individuals belong, often simultaneously, and this is possible because individuals have their right to choose reasonably well protected. Not only do all individuals join a wide array of communities—family, church, profession, clubs, civic associations, and political parties—but there are vastly different approaches to living that also draw around them large segments of the population who join freely, without any coercion and regimentation. But instead of appreciating the robust nature of individualism, including its support for the healthiest form of communitarianism, its opponents are trying to discredit it in any way they can. Why?

Well, some of their motives may be decent enough—some may indeed fear the impact of narrow economic individualism and thus carp against all individualism. But sometimes their motivations cannot be understood as anything else but a hunger for power over other people's lives. Otherwise, why would the critics ignore perfectly sensible versions of individualism and insist on the caricatures? Over and over again they invoke the caricature even when other, well developed versions are available.

Something like this seems to be the best explanation for wishing to destroy the most significant American discovery, namely, the vital contribution of individuality to human culture. Why would such attacks be launched but to reintroduce subjugation, involuntary servitude, and the demeaning of individuals as individuals in favor of some elite?

No doubt those clamoring for power rationalize their actions with the thought of certain worthy goals: They want a cooperative, harmonious, mutually enhancing community. They often believe that individuals as individuals are dangerous but as members of a community they are wonderful. As the Russian author Tatyana Tolstaya observes in a recent issue of *The New Republic*:

Taken individually, in short, everyone is not good. Perhaps this is true, but then how did all these scoundrels manage to constitute a good people? The answer is that "the people" is not "constituted of." According to [collectivists] "the people" is a living organism, not a "mere mechanical conglomeration of disparate individuals." This, of course, is the old, inevitable trick of totalitarian thinking: "the people" is posited as unified and whole in its multiplicity. It is a sphere, a swarm, an anthill, a beehive, a body. And a body should strive for perfection; everything in it should be smooth, sleek, and harmonious. Every organ should have its place and its function: the heart and brain are more important than the nails and the hair, and so on. If your eye tempts you, then tear it out and throw it away; cut off

sickly members, curb those limbs that will not obey, and fortify your spirit with abstinence and prayer.

That is why they should be in power: They are the head of the organism, of the community; they know what is good; and they ought to be making the decisions as to who remains part of it and who must be cut off.

Members of society do have different roles; the economists speak convincingly of the benefits of the division of labor. The errors of the collectivists are (1) their presumption that they know better than the individuals involved which members of society are less important, and (2) they have the right to eliminate those members. But individuals are ends in themselves, not animals to be sacrificed on the altar of the collectivist state. □

REQUIRING CITIZENS TO DO EVIL

by Michael Pierone

Does civil disobedience have any place in a lawful society? If so, under what circumstances, and if not, then what is the consequence? Recently the physician-host of a radio program answered a question about using marijuana to treat glaucoma. He told the listener that as a physician it was his responsibility to prescribe effective remedies even though it may violate the law, and so advised the listener to break the law if

Michael Pierone is New Jersey coordinator of the Fully Informed Jury Association.

need be, but to preserve her own health. Should he have kept his silence?

We used to have slavery in this country, and naturally enough as a consequence, we had the Fugitive Slave Act. The intent of this legislation was to return slaves to their owners; harboring fugitive slaves would not be countenanced. Juries in the northern states routinely refused to convict people who by their own admission were quite clearly "guilty" of violating the law. Would it have served justice to convict the violators?



Henry David Thoreau

Today, the right to trial by jury is seriously compromised because jurors do not understand that they have the same right to disregard the direction of the judge as jurors who disregarded the judge when ruling on the justice of the Fugitive Slave Act. Unfortunately, judges are instructing jurors that they are to judge only the facts and that they must accept the law as the judge charges it to them.

We have tens of thousands of laws in this country now, some good, some not so good, some poorly applied to individual circumstances. Is it appropriate that the letter of the law be the rule, or should juries attempt to provide justice, rather than law?

A concrete example may be helpful here. As New Jersey coordinator for FIJA, the Fully Informed Jury Association, I have direct experience in civil disobedience. Recently I mailed letters to county prosecutors in New Jersey asking them their opinion as to the legality of passing out brochures to jurors describing their jury nullification powers. An early response from a prosecutor in Morris County was that I would be "tampering" with the jury to inform them of this power. What was FIJA's response? We ignored the prosecutor's advice and handed out the pamphlets anyway. No arrests were

made, largely due to the fact that the press was present and that we also passed out a copy of the Governor's Proclamation of Jury Rights Day, in which he describes jury nullification powers. But would it have served justice to heed the prosecutor's warning? There is a good reason for jury tampering laws, but here we have a clear instance of misapplication of a good law. Jury tampering occurs when someone uses coercion or incentives to try to alter a juror's verdict. What we were doing was informing the juror that he has a responsibility to use his conscience to arrive at *his own verdict*, rather than allow the judge to force him to rule against his own best judgment. Is it not the judge who is "jury tampering"?

In his essay on civil disobedience, Henry David Thoreau stated:

Unjust laws exist: shall we be content to obey them, or shall we endeavor to amend them, and obey them until we have succeeded, or shall we transgress them at once? Men generally, under such a government as this, think that they ought to wait until they have persuaded the majority to alter them. They think that, if they should resist, the remedy would be worse than the evil. But it is the fault of the government itself that the remedy is worse than the evil. *It makes it worse.* Why is it not more apt to anticipate and provide for reform? Why does it not cherish its wise minority? Why does it cry and resist before it is hurt? Why does it not encourage its citizens to be on the alert to point out its faults, and *do* better than it would have them? Why does it always crucify Christ, and excommunicate Copernicus and Luther, and pronounce Washington and Franklin rebels?

When government creates laws that require citizens to do evil—to return fugitive slaves, to refrain from harboring Jews, to place Japanese-Americans in concentration camps, or to report on their neighbors—will not men of good conscience disobey and endure the consequences? Or is the virtue of obeying the law so overwhelming that we must abandon virtue itself? □

OUTLAWING COOPERATION

by Charles W. Baird

Believe it or not, federal labor law may make it illegal for labor and management to cooperate with each other in a private nonunion workplace. Since less than 12 percent of private sector workers today belong to unions, labor-management cooperation involving 88 percent of America's private workforce may break the law.

The Problem

Prodded by foreign competition—especially from the Japanese, whose system of labor-management relations is based on cooperation rather than confrontation—American companies in recent years have set up approximately 30,000 employee participation programs designed to improve communication between workers and managers, give employees a voice in decision-making, boost morale, lower costs, and improve productivity, product quality, and customer satisfaction. Sometimes called “quality circles,” “labor-management cooperation groups,” or “employee involvement teams,” these employee participation

programs began in the late 1970s and have grown ever since. If American firms and their employees are to succeed and prosper in today's global marketplace, many believe that this new way of doing business must continue to take root and spread throughout the American economy.

But in a decision issued on December 16, 1992, involving a small Indiana electrical parts manufacturer named Electromation, Inc., the National Labor Relations Board (NLRB) ruled that labor unions may use the 1935 National Labor Relations Act (NLRA) to thwart the development of employee participation programs in nonunion firms. In an era of declining union membership, unions are seeking to use the law in this way because they are desperate to enroll new members. Whatever may have been the case in the 1930s, employers today recognize that good labor-management relations are necessary for survival. As a result, a nonunion worker is often just as well off today as a union worker—often better off, in fact, because labor unions, for their survival, frequently promote an expensive “us-versus-them” adversarial mentality among workers. Where good labor-management relations prevail, unions have a hard time gaining a foothold. At bottom, then, the *Electromation* case involves an attempt by the labor union movement to frustrate nonunion labor-management coop-

Charles W. Baird is Professor of Economics and Director of the Smith Center for Private Enterprise Studies, California State University, Hayward. This essay was originally published by the Cato Institute as “Are Quality Circles Illegal? Global Competition Meets the New Deal” (Briefing Paper No. 18, February 10, 1993).

eration. If they succeed, workers will have a voice in their workplace only if they unionize.

Indeed, at the August 1991 annual meeting of the American Bar Association, the chairman of a session on labor and employment law observed that the International Association of Machinists and the Union of Electrical Workers seem to "view employee involvement programs as little more than an attempt to increase employer control over the workplace, bind employees to the success of the enterprise, deflect them from interest in their own solidarity, and undermine existing union structures." That view was reflected in a recent statement to the NLRB by Anton Hajjar, an attorney for the American Postal Workers Union: "A timeless evil lurks behind this new, fashionable trend called employee involvement." The timeless evil, apparently, is the "company union."

Company Unions and the NLRA

Before the 1930s, many employers had organized their workers into unions in an effort to deal better with labor-management issues. Many of those so-called company unions—for example, The Industrial Assembly of the Goodyear Tire & Rubber Company—were honest and successful attempts by employers to improve labor-management relations. In 1933, however, Congress enacted the National Industrial Recovery Act (NIRA), Section 7(a) of which compelled employers to allow their employees to join unions if they so wanted. Since the act did not specify that the unions had to be independent of employers, many employers formed in-house company unions, hoping thereby to comply with the law while avoiding having to deal with independent unions. Although these company unions were often called "employee representation committees," some did not represent the interests of employees at all. Instead, they were used by employers as smokescreens, aimed at preventing workers from affiliating with independent unions. The NLRA put an

end to all company unions, legitimate and illegitimate alike.

Section 8(a)2 of the NLRA states that it is an unfair labor practice for an employer "to dominate or interfere with the formation or administration of any labor organization or contribute financial or other support to it. . . ." What is a labor organization? Section 2(5) of the NLRA says it is "any organization of any kind, or any agency or employee representation committee or plan, in which employees participate and which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work." The term "employee representation committee or plan" was aimed specifically at those company unions whose chief purpose was to frustrate employees who wanted to affiliate with independent unions.

Electromation Background

What does this have to do with Electromation? Actually, nothing at all. Nevertheless, organized labor claims that it does. They seem to believe that any employee participation committee whose employee members are not union members is an illegal company union. To put the issue in an actual setting, let us examine briefly the facts of the *Electromation* case.

At an employee Christmas party on December 23, 1988, John Howard, president of Electromation, which was then a nonunion firm, announced that since 1988 had been a year of substantial losses for the company, annual wage increases would be canceled for 1989, and the existing attendance bonus program would be altered to reduce costs. The party was not completely ruined because Howard then distributed unexpected Christmas bonuses to the employees.

After a holiday break during which the company was shut down, Howard received a petition signed by 68 of the 187 employees who were affected by the Christmas announcements. The petitioners objected to the changes in the attendance bonus program and requested that management con-

sider alternative approaches to its financial problems. Eager to maintain the good will of his employees, and recognizing that engaging employees in dialogue was a more productive form of labor-management relations than authoritarian proclamations from the top, Howard set up a joint labor-management committee to discuss the issues.

The committee consisted of four management people, including Howard, and eight employees selected at random. It met twice, on January 11 and January 18, and discussed several topics of concern to both sides, including attendance, tardiness, sick leave, incentive pay, overtime, wages, and bonuses. At the second meeting the committee members agreed to set up five joint labor-management "action committees," each of which would specialize in an area of concern: absenteeism and other infractions, a no-smoking policy, communications, pay scales for premium positions, and the attendance bonus program.

On January 19 all employees were asked to volunteer for specific committees and the company selected employee members at random from each list of volunteers. No more than six employees could be on any one committee, and no employee could serve on more than one committee. Each committee would have one or two management members, and the employee benefits manager would serve on every committee. The composition of the committees and the eligibility rules were unilaterally set by management. The no-smoking committee was never organized and never met. The four other committees were organized and did meet.

Although employee committee members "talked back and forth" with, and sought advice from, other employees, they were not formal representatives of the other employees. They did not have to get the approval of all the other employees, or even a majority of the other employees, to take a particular stand at the committee meetings. They were merely the means by which management sought to discover the concerns of employees.

The action committees' role was purely

advisory. Howard agreed that if the committees came up with workable solutions he would implement them, but there was no union-like collective bargaining in the sense that all sides had to agree before any policy could be implemented.

Electromation's management was serious about supporting the work of the committees. All committee meetings were held on company premises, the company paid the employee members for their attendance, and the company supplied the necessary materials, including telephones. Any disinterested observer would have to conclude that here was a company that appreciated its employees, valued their good will, and honestly sought their advice.

Shortly after the action committees were formed and got underway, however, the Teamsters Union undertook an organizing campaign at Electromation. President Howard and the rest of the management team did not know about this effort to unionize the firm until February 13 when the Teamsters officially requested that Electromation recognize it as the exclusive bargaining agent for the company's non-managerial employees. On February 21 President Howard pulled all management members off the four committees but told the employees they could continue to meet if they wished. The employee members of the Absentee/Infraction and the Communication Network Committees continued to meet. The Pay Progression Committee disbanded. The Attendance Bonus Committee wrote up the proposal they had been working on and then disbanded.

Electromation's action committees were clearly not what the authors of the NLRA understood to be company unions. The company was not trying to thwart an attempt by its employees to become unionized. Indeed, after President Howard became aware of the Teamsters' organizing drive he did all he could to step out of the way. To any disinterested observer, Electromation was a nonunion firm that was trying to undertake cordial, effective labor-management cooperation and comply with the NLRA.

Electromation Legal Dispute

To begin organizing workers in a non-union firm, a union must first collect signatures of support from at least 30 percent of the workers. After it does so, the union requests recognition from the employer. If the employer balks, the next step is for the NLRB to conduct a certification election among the employees, by secret ballot, to determine whether a majority wants the union to be their exclusive bargaining agent. Such an election was held at Electromation on March 31. The Teamsters lost by a vote of 95 to 82. The Teamsters then filed an unfair labor practice charge against Electromation, alleging that the action committees had been illegal company unions used to prevent the workers from affiliating with a legitimate union.

If a complaint of an unfair labor practice is accepted by the general counsel of the NLRB, the case is first heard by an administrative law judge (ALJ). On April 5, 1990, the ALJ assigned to the *Electromation* case, George F. McInerny, announced his decision against the company. He set aside the results of the March 31 election and ordered the parties to hold another one. After several months, a second election was held, which the Teamsters won by convincing a majority of workers that, due to the ALJ's decision, the only way they could cooperate with management was through a union. Electromation remains today a unionized firm.

When the ALJ's decision was handed down, prior to the second election, Electromation appealed it to the NLRB. Notwithstanding the outcome of the second election, Electromation continued to press its appeal in order to get a ruling on the labor-management cooperation issues. Before ruling, the NLRB invited the Teamsters, Electromation, the NLRB general counsel, and other interested but not directly involved parties to give testimony on two questions: (1) At what point does an employee committee lose its protection as a communication device and become a labor organization? (2) What conduct of an employer

constitutes domination or interference with an employee committee? The NLRB took oral testimony on September 5, 1991. In addition to the three main parties, ten other parties, including the AFL-CIO and the U.S. Chamber of Commerce, gave testimony. The case had become the most hotly contested and widely discussed NLRB case in decades. On December 16, 1992, the NLRB issued its decision upholding the ALJ opinion.

The Board determined that the action committees were "labor organizations" under Section 2(5) of the NLRA because employees were involved in them and they were "dealing with" the employer on matters that unions usually bargain about in unionized companies. The Board found that

The evidence . . . overwhelmingly demonstrates that the purpose of the Action Committees, indeed their *only* purpose, was to address employees' disaffection concerning conditions of employment through the creation of a bilateral process involving employees and management in order to reach bilateral solutions on the basis of employee-initiated proposals. This is the essence of "dealing with" within the meaning of Section 2(5).

In 1959, in *NLRB v. Cabot Carbon Co.*, the U.S. Supreme Court declared that "dealing with" in Section 2(5) is not synonymous with "bargaining with." Therefore, the Board reasoned, the fact that Electromation did not engage in union-style bargaining with the committees did not mean that the committees were not labor organizations. In *Cabot Carbon* the committee in dispute dealt with "grievances," which are mentioned in the Section 2(5) definition of labor organization. In *Electromation* the action committees dealt with attendance bonuses, pay scales, rule infractions, and labor-management communications. The first two issues obviously involve "rates of pay"; the latter two, according to the Board, involve "conditions of work." In truth, it is hard to imagine that an employee participation plan would deal with anything but "conditions of work." Thus, according

to the NLRB, all such plans run up against the proscriptions of Section 8(a)2 since all are labor organizations.

Moreover, since Electromation initiated the committees and set the rules by which they would operate, it was guilty, according to the Board, of "dominating" the labor organizations in violation of Section 8(a)2. Finally, since Electromation provided the meeting places for the committees, supplied materials and telephones, and paid employee committee members for attendance, the Board concluded that it was guilty of "supporting" the labor organizations, again contrary to Section 8(a)2.

The NLRB admitted that there was no evidence that Electromation was acting to counteract the Teamsters' unionization drive. It also acknowledged that there were no grounds for thinking that the company had any anti-union motives for any of its actions or that the employees regarded the committees as union substitutes. But, the Board asserted, those points are irrelevant. Why?

Section 2(5) literally requires us to inquire into the "purpose" of the employee entity at issue But "purpose" is different from motive; and the "purpose" to which the statute directs inquiry does not necessarily entail subjective hostility towards unions If a purpose is to deal with an employer concerning conditions of employment, the Section 2(5) definition has been met regardless of whether the employer has created it, or fostered its creation, in order to avoid unionization or whether employees view that organization as equivalent to a union.

Professor Charles J. Morris, who supported the union side in this case, asserts that "representation" is the key question in determining whether an employee participation plan is a Section 2(5) labor organization. According to Morris, any nonunion worker-management cooperation is all right if each employee speaks for himself, while if a nonunion employee represents other employees on any committee, the committee is automatically a labor organization, subject to the prohibitions of Section 8(a)2. Yet in all

but very small firms any practical employee participation plan would have to involve representation. Moreover, in nonunionized settings employers are likely to take the initiative in the formation and administration of such plans. The plans are motivated, after all, by the employer's concern with the bottom line. If accepted, Morris' view dooms virtually all employee participation plans in nonunion firms.

The NLRB tried to avoid condemning all nonunion employee participation plans in its *Electromation* decision. According to the Board, those that focus on improving "quality" and "efficiency" are acceptable, whereas those that deal with subjects about which unions usually bargain are not. Members Devaney and Oviatt wrote separate concurring opinions in which they tried to amplify that distinction. Member Raudabaugh, in his concurring opinion, correctly pointed out that the term "conditions of work" in Section 2(5) precludes any such distinction.

Raudabaugh concurred in the decision because he thinks the law, as written, makes all employee participation plans Section 2(5) labor organizations. The only way around that result, he concluded, would be for Congress to change the law. He noted, however, that it might be possible to uphold an employee participation plan, even though it is a labor organization, by a liberal interpretation of the restrictions in Section 8(a)2. Such was not the case in *Electromation*, according to Raudabaugh, because among other things the company set up the action committees in response to employee complaints; thus, they had to be considered union substitutes. If Electromation had initiated the committees without any employee prodding, "to accomplish its own entrepreneurial interests," Raudabaugh would have upheld them as permissible because they would not be union substitutes.

Polaroid, Too

Electromation is not the only nonunion firm to have faced this problem. On June 19, 1992, the Polaroid Corporation dissolved an

employee participation committee that had been at the center of good labor-management relations in that nonunion firm for 40 years. Polaroid took the action in response to a declaration by the U.S. Department of Labor that the committee was a labor organization under the NLRA. Members of the committee were elected and acted as representatives of employees and, as in the *Electromation* case, the company supported the committee. Polaroid wanted to avoid the difficulties that Electromation was going through. As reported by the Bureau of National Affairs:

Bill Graney, chairman of the [Polaroid] committee for the past three years, said there was "a lot of anger" among employees that officials in Washington made a decision based "on some archaic laws." The committee could only remain in existence if it were completely independent of management, but "what made this work was that we were all in this together."

Many at Polaroid—management and employees alike—are afraid that unions may see the dissolution of the committee as an opportunity to undertake an organizing campaign. Indeed, because of the *Electromation* decision, nonunion workers everywhere will now be faced with the Hobson's choice confronting Polaroid workers—union representation or no representation at all.

Congress, the Courts, and the Law

Congress could of course change the law that has led to this result. In fact, in June 1991, in response to Judge McInerny's decision, 33 Congressmen introduced a bill called the American Competitiveness Act that would have amended Section 8(a)2 by adding a statement "that nothing [in the NLRA] shall prohibit the formation or operation of quality circles or joint production teams composed of labor and management, with or without the participation of representatives of labor organizations." The bill got nowhere in the 102nd Congress. On

January 31, 1992, nine Congressmen, led by Wisconsin Representative Steve Gunderson, submitted a legal brief to the NLRB in which they asked the Board to reverse the ALJ's decision in *Electromation* and uphold the legality of the company's action committees. If the Board did not do so, the Congressmen said, they would lead a new effort in the House to amend the NLRA. On December 21, 1992, in response to the *Electromation* decision, Representative Gunderson announced that he would introduce an amendment to Section 2(5) early in the 103rd Congress. His amendment would change "dealing with" to "collective bargaining with."

Although the Gunderson amendment would probably settle the issue, most observers believe that there is little chance that any such amendment would make it through the 103rd Congress. Now that the NLRB has decided against Electromation, the only hope left for nonunion labor-management cooperation would seem to rest with the federal courts. Thus, on December 28, 1992, Electromation announced that it would appeal the NLRB decision to the Seventh Circuit Court of Appeals.

Electromation doubtless wishes it were in the jurisdiction of the Sixth Circuit Court of Appeals, which has overturned earlier NLRB decisions against employee participation committees. In 1982, for example, that court upheld the legality of a representation committee composed of employees elected by their peers; the committee had communicated employee concerns and suggestions to management on all manner of issues. Similarly, in 1989 the same court upheld the legality of an elected "President's Advisory Committee," which was charged with communicating employee views to management. Unfortunately, other circuit courts, including the Seventh Circuit, have been less hospitable to such arrangements.

The Supreme Court has not taken up the issue since 1959. Today, however, the circumstances and issues in employee participation plan cases are different from those in the 1959 *Cabot Carbon* case. Moreover,

the composition of the Court has changed. It is impossible to predict, therefore, just how the Court will decide *Electromation* if the case reaches it.

At his confirmation hearings to become the new Secretary of Labor, however, Robert Reich was asked about the *Electromation* decision. He avoided any specifics but said that he thought the decision was narrow and should not impair labor-management cooperation. If it does have that effect, Reich said that he "will be seeking legislation" to remedy the situation. We can only wait to see what kind of legislation the Clinton administration will seek.

For its part, Congress is not opposed to all employee participation arrangements. Senator Edward M. Kennedy, for example, promoted the Occupational Safety and Health Reform Act of 1992, which would have forced companies with eleven or more employees, union and nonunion alike, to create joint labor-management health and safety committees. Kennedy plans to reintroduce the bill in the 103rd Congress. And many unions support the bill even though such committees would be no different in principle from the *Electromation* action committees the unions so bitterly oppose. Indeed, Peggy Taylor, associate director of the AFL-CIO's Department of Legislation, said that such health and safety committees could be on the "cutting edge" of labor-management cooperation. Apparently unions do not want to be seen to be against health and safety so they are willing to give up that turf, at least in nonunion settings, in exchange for monopoly representation privileges on all other matters. In union settings, however, they claim monopoly representation privileges even on matters of health and safety, as we will next see.

The Problem Extends to Unionized Firms

The NLRA can be used to restrict labor-management cooperation even in unionized firms. On December 22, 1989, for example, an ALJ held that the Du Pont Company violated the law at its Deepwater, New

Jersey, plant because it instituted, dominated, and supported a "design team" consisting of management and employee members. On January 30, 1990, the NLRB upheld the ALJ. The job of the team was to improve workplace safety, promote innovation, foster better communications, and make the plant more competitive. The union complained that all of this was being done without going through the union. According to the NLRB, cooperation with the union is permitted, but cooperation with workers without union involvement is not.

That was not the end, however, to Du Pont's labor-management cooperation troubles. On May 11, 1992, another ALJ declared that seven more committees at Du Pont's Deepwater plant functioned as illegal company unions. Six of the committees dealt with safety issues while the seventh dealt with employee physical fitness programs. This ALJ affirmed the finding in the earlier case: Where there is a union, labor-management cooperation must be union-management cooperation, even in the operation of voluntary physical fitness programs.

The *Electromation* case, recall, concerned labor-management cooperation in nonunion settings. Putting the unions' positions in the *Electromation* and *Du Pont* cases together, we must conclude that, to them, labor-management cooperation in nonunion settings, except concerning health and safety, is always wrong; and labor-management cooperation in unionized settings must always be union-management cooperation. Quite simply, unions want to have a government-enforced monopoly on speaking for workers. In union settings they demand those monopoly privileges even in the areas of health and safety. In nonunion settings they are apparently willing to allow labor-management cooperation on health and safety issues only, but on nothing else.

A Common Sense Approach

As the NLRB was weighing the *Electromation* case, Edward E. Potter, president of the Employment Policy Foundation, had

urged the Board to take a "common sense" approach. Since the clear intent of the authors of Sections 2(5) and 8(a)2 was to prohibit employers from resisting independent unions by forming sham ones, those provisions should not be used to prohibit anything else, he argued, such as labor-management cooperation that is not based on animosity toward unions. In cases like *Electromation*, Potter continued, the Board should take into account the intent of the employer in forming employee participation committees. If there is no anti-union intent, no violation of the NLRA should be found. Potter further argued that the Board should consider the perceptions of employees who participate in such plans. Employees are not stupid. They know when they are being conned for anti-union purposes. If employees do not feel they are being coerced or exploited for anti-union purposes, Potter concluded, they probably are not. The *Electromation*, Polaroid, and Du Pont employees involved in such committees were not being victimized by their employers, and they knew it.

Whether the intentions of the authors of a statute ought to be binding on agencies and courts that interpret it is hotly debated in legal circles. Moreover, the intentions of the authors are not always clear. The author of the main *Electromation* decision wrote, for example, that "the legislative history reveals that the provisions outlawing company dominated labor organizations were a critical part of the Wagner Act's purpose of eliminating industrial strife. . . ." He then went on to quote Senator Robert Wagner, the principal author of the act:

Genuine collective bargaining is the only way to attain equality of bargaining power The greatest obstacles to collective bargaining are employer-dominated unions, which have multiplied with amazing rapidity since the enactment of [the National Industrial Recovery Act]. Such a union makes a sham of equal bargaining power. . . . [O]nly representatives who are not subservient to the employer with whom they deal can act freely in the interest of

employees. For these reasons the very first step toward genuine collective bargaining is the abolition of the employer-dominated union as an agency for dealing with grievances, labor disputes, wages, rates, or hours of employment.

That passage seems to substantiate Potter's view that Sections 2(5) and 8(a)2 were aimed at sham unions used to thwart the desires of employees to unionize, not at labor-management cooperation in nonunion settings. Yet the author of the main *Electromation* decision thought the passage justified the Board's conclusion that the term "labor organization" should be interpreted broadly to include more than just sham unions. In his view, the statute was written broadly to include anything any employer could think of. Ironically, in reading Wagner's intent to prohibit sham unions as entailing a prohibition of *any* nonunion labor-management cooperation, the Board has ensured an adversarial relation between labor and management and so has undermined the larger aim of the act—the elimination of industrial strife.

In his opinion concurring in the judgment, Dennis Devaney took issue with the Board's main decision on the question of legislative intent:

[T]he definition of "labor organization" [in Section 2(5)] is intended to bring under the purview of Section 8(a)2's strictures the phenomenon of the company-imposed sham bargaining agent, without reference to other types of employer-employee communication with purposes other than bargaining.

Devaney concurred in the judgment against *Electromation* because, as he read the record, the company did, through the action committees, engage in bargaining on terms and conditions of employment.

Despite the NLRB's sweeping prohibition of nonunion labor-management cooperation, other federal legislation implies that the federal government enthusiastically supports such cooperation in all firms, whether they are unionized or not. Indeed, a Bureau

When the state degenerates from the defender of personal freedom to the dispenser of special privilege, it carries with it into corruption the once proud and independent voluntary associations. It destroys the healthy, pluralistic society, the society in which multitudes of private and voluntary associations strive in a peaceful and competitive way to improve the positions of their members.

—Sylvester Petro, "The Perversion of Pluralism"

of Labor-Management Relations and Cooperation has been created in the U.S. Department of Labor. Its official purpose is "to promote cooperative labor-management efforts and enhance the quality of working life, while improving the productivity and competitiveness of American industry."

Another example is the Malcolm Baldrige National Quality Improvement Act of 1987. Under this law the Department of Commerce gives Malcolm Baldrige National Quality Awards to companies that have devised and implemented outstanding quality management systems based on employee involvement. It is not a little ironic that in its *Electromation* decision the NLRB has come out against nonunion labor-management cooperation and, by implication, that it penalizes many of the very plans that the Malcolm Baldrige Award is designed to honor.

Free Choice?

After the *Electromation* decision came down, the AFL-CIO issued a statement praising the Board for "guaranteeing employees the right to choose their own representatives." That view was echoed by Charles J. Morris:

Employers who really believe in the right of workers to exercise a free and democratic choice in the selection or rejection of their representative will applaud the board's decision for it upholds the principle of free choice. The Board in *Electromation* is simply saying as the Act requires, that employees ought not to be coerced in their choice of representation by either a labor union or by their own employer.

However genuine this concern for free choice, the *Electromation* decision hardly respects such a choice. For even if we assume that workers should be prohibited from dealing directly with their employer when a majority among them want to have a union, as the NLRA requires, the Teamsters lost the initial certification election when a majority of the employees voted to handle labor-management issues without a union. The union could not accept that outcome, however, and so filed a complaint. Armed then with the ALJ's broad reading of the NLRA, the union convinced a majority of *Electromation*'s workers that their concerns could be addressed only through a union. Thus was the "free choice" of *Electromation*'s workers—majority and minority alike—respected.

Conclusion

It is impossible to say for all time what the best and most effective forms of labor-management cooperation are, other than to say that that determination should be left to the parties themselves to make. Those forms that seem best today may not be best tomorrow. The discovery of what works, and what works better, is an ongoing process. That process is stifled, however, when labor-management cooperation is forced into the one-size-fits-all strait jacket of NLRA unionism. When that happens, both business and labor pay the price, as history amply demonstrates. The global marketplace cannot be resisted. It is here and growing. If we do not change our ways of doing business to meet this new reality, we will all pay the price. As in so much else, freedom is not only right but efficient as well. It is the foundation for prosperity in our changing world. □

STORE SETS

by David Montague

I'm a retail merchandiser. I fight for shelf space in grocery stores.

The business is intensely competitive. I have watched pot-bellied men in their forties get into a fist fight over whose brand should get the better side of the shelf. I've seen a thick-skinned, Army-brat mother of teenagers in tears over a single facing in an insignificant store. The frustration casualties are hard to count, but I know of four heart-attack victims in the past year. Often I work all day only to have a competitor come behind me the next day and reset everything to his advantage.

The arena for our contention is the store set, wherein the various sales reps and merchandisers descend on a store to clean it, pull discontinued items, work in new items, and allocate the shelf space.

The question of how best to set a category is complicated by several factors—visibility, traffic flow, and so on—but a major consideration is to make the set tamper-proof. This means I want to separate any standard-shaped packages from an expansion-minded competitor by putting a package of another shape between us. I want to set my stuff horizontally, in most cases, so it's harder for the other guy to rob me. Most important, I want to be fair. It isn't that I have a generous nature. I want to be fair because I don't want to give my competitor an opening to challenge my set.

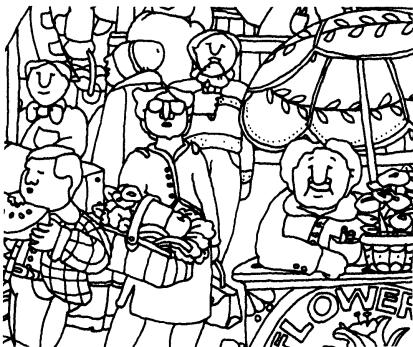
I have brands in five categories. If I beat the competition to the store, my first task is

to decide which category is the most critical. I try to anticipate which of my competitors may show up, and where their priorities will lie. I make contingency plans in case I guess wrong. I grab the category where I have the most to gain or lose.

At any given set I may have two major competitors and three or four minor competitors. If the competition sends a greenhorn, I'll end up calling all the shots, and he'll end up stocking the shelf. A standard question among competitors who meet as strangers at a set is, "So how long you been with Procter?" Or: "How long have you been with Kimberly?" But the question is asked as a formality, or to confirm the original impression, because it is immediately apparent how long everybody's been around. A veteran paired with a newcomer will always take over the set within a matter of seconds, even without conscious contrivance. The dynamics of cooperation and challenge are subtle, and it takes a while to learn to work the machinery. If the newcomer sticks around for six months, he'll be trouble. He'll consult higher authority to settle minor disputes. He'll fight over trivialities. He's sure he's being taken advantage of; he just doesn't know how. After a year he'll start to get the hang of things. He'll start picking up your stratagems. One morning you'll arrive at an eight-o'clock set at quarter past seven and find him already at work. You'll know then that you have a worthy antagonist.

Despite the cutthroat nature of the business, old competitors work well together. They have learned that it's better to work

The author, who has used a pen name, wishes to remain anonymous.



“Competition is nothing but freedom looked at upside down. In a market where buyers are free to shop around, sellers must outdo each other to get and keep customers. Through competition there is produced the maximum of goods and services that the public wants most.”

—Hart Buck

things out between themselves rather than bring in the set supervisor, who may, in irritation, cast a decision to the detriment of both. I often eat lunch with my fiercest competitors, who have bitterly cursed me to my face and vice-versa, and from whom I've had much more training than from my own company. It is a relationship similar to an old contentious marriage, where each partner anticipates the other's argument. The fighting tends to be fast and efficient. Ninety percent of the time we are civil, even friendly, and we generally enjoy each other's company. But we're all ready to play hardball at a moment's notice.

Seen as a game, the store set is a combination of the German card game skat and football. It is like skat because the configuration of allies and enemies is constantly in flux. It is physically demanding because the set starts at seven or eight a.m. and may be more than a hundred miles away. I've left home as early as four-thirty to get to a distant set ahead of competition who lived in that town. The average set takes eight or ten hours, including drive time, but fourteen isn't uncommon. The work is usually light, but at its worst it is grueling and endless. I've had easier days roofing houses.

My accounts are all independents and small chains. There was a time when I could have opted for a more staid job working big chain accounts where decisions are made at a regional level and sections are set by schematic diagrams called planograms. I

chose the independents because chaos offers security: I can't be replaced by a robot. The people I work with feel the same way. Better to fight for a living, and to have opportunities for improvisation, than to be at the mercy of paper-pushers.

There is no altruism among us. Regardless of how well disposed we may feel toward one another, there is no charity on the set, only expedient courtesies and temporary alliances. The only reason I don't take the whole shelf for myself is I can't get away with it, and I know if I tried I would lose my credibility with the store owner or set supervisor. My competitors are of the same make, and I expect no different. We have no common cause.

And yet, in our aggregate, it is sharks like us, along with commercial real estate speculators, futures dealers, and other such quasi-parlous types, who ensure that when you go grocery shopping you don't have to drive forty miles to stand in line for hours to buy whatever happens to be on the shelf at an unpredictable price. We are the ones who keep the junk off the shelf, and make sure the best products are in stock. To apotheosize the job to a metaphysical level, we are paid for our recognition of the value of time and space. In those parts of the world where we do not exist, you will find starvation. It is the drive for market share, the drive to maintain and increase shelf space, that is the impetus for continual improvement of the product. □

PART OF THE ECONOMY

by Bill Chaitow

Hardly anyone knew his name. Each day, the old man would make his way to the same spot downtown in front of Kress' department store with his aging dog. He would unfold his metal chair, sit down and begin to finger the keys and buttons on his ragged, worn accordion. The tunes were hardly recognizable and they were not played with zest. Often he would sing but his words were mouthed so low and indistinctly that passersby were barely able to recognize the song. Still, enough of them would feed coins into the upturned hat, which sat less than ten inches from the nose of his tired dog, that the performer returned to his "stage" five days a week for many years.

He was the kind of person a child remembers. His eyes were his most memorable feature: oversized, milky blue, each pointing its own direction in a vacuous stare. His heavy body would slightly sway as his music droned. Whether his act was called begging or entertaining was not important. The old man was a fixture downtown and no one would seek to remove him. He was doing what he could to earn a living. In his manner there was an acceptance of his condition, a sense of purpose to his life, and a contentment as he played and sang his way through each day.

There was another man downtown. Everyone knew him as Peanut Joe. Peanut Joe seemed to enjoy his work; he was busy seven days a week, often working into the

night. He would wander downtown with his sweater never buttoned straight.

Peanut Joe may not have been fully in his mind because he would often walk out into the middle of a street from a corner as though he were going across. As he would get halfway across, he would abruptly turn around and head back. When he got close to the curb he would stop, stare at it, hop up onto the sidewalk, turn around and proceed to start across again. Often he would repeat this procedure three or four times before he would complete the trip across the street. People would stare at this ritual in amazement. He must have sold enough peanuts to make a living, though, because Peanut Joe was a vendor downtown for at least ten years.

Just a few miles away on a main road leading away from downtown there was an older couple who would sell newspapers each afternoon and evening on the same street corner. The man was energetic. He would stand out there proudly, always clean and neat, wearing his pith helmet and shout out the day's headlines. Very businesslike, he would hustle a paper to any customer who beckoned. His wife was a shy person. She would sit on a crate and hold up a newspaper which mostly hid her kerchief-framed face. Never did she smile and it often looked as if she were peeking from behind the newspaper much as a nosy neighbor would snoop from behind a curtain at people passing by. Those two were a team and they must have sold many papers because they were a part of that street corner for quite a few years.

Bill Chaitow owns a small business and is a free-lance writer.

As a young person, I would often wonder about the purpose of these people. Each of them was easy to disregard. They could be considered by some as a nuisance, possibly even an eyesore. Now that I am grown, I realize that these people each served society and served well. They are not there anymore and there is none to replace them. Because of their absence the city has lost a lot, the state has lost something, and our nation is diminished. Each of these citizens was in business doing what he or she could to provide entertainment or a service to the other citizens. They were a part of the rich fabric of this community. They were proud, productive people who demanded nothing. Each of them went into the workaday world and boldly competed. The old, blind entertainer knew that there were other forms of entertainment available but he also knew that he had his regulars who would come up, stop for a few moments to listen to his tunes and put the price they thought was fair in his upturned hat. Peanut Joe competed with many restaurants, snack stands, and street vendors in the downtown area. He, too, had his regulars who would make it a point to get their daily afternoon or evening snack from him. The old newspaper couple had their regulars also. They were there in good weather and bad. The *Tribune* could always be bought at their corner because they were dependable.

This was over twenty years ago and since those people have vanished, no one has come to take their place. There has to be a reason why. Oh, today there is the donut lady who sells from her neat little stand and there is the flower lady who has a tidy little stand. They are both chipper and as kind as they can be. There is the nice blind man with the snack stand in the courthouse. Comparing the economy then with the economy of today, the prices of today's vendors seem much higher. Although today's small vendors are true entrepreneurs, they do not demonstrate the gutsy, rugged spirit of their earlier counterparts. They are not the same ripe age as the vendors and the performer of long ago. Those old ones are gone. For them it must have been different. They just de-

cided one day that they were going to be in business and the following day they were selling peanuts, newspapers, or playing soft melodies on the accordion. The vendors of today had to get a city or county license. They also had to get formal permission to set up a stand which had to meet certain visual and structural conditions. They have to pay rent. They have to meet many governmental standards. Those pioneers of ages past would never have withstood today's requirements of governmental bureaucracy to free-lance on the streets; they were just hoping to make a living doing what they could do.

Just as it is the government which keeps the able elderly and those of feeble mentality from earning a living as a viable part of the economy today, it is also the government which serves to look after them with Medicare, Medicaid, welfare, and Social Security. Many of these people are tucked away in nursing homes instead of their own homes, away from the public view as though they were a blight on society. They sit in the foyers, halls, and their rooms with one request made of their existence: Don't be a bother. The checks from Uncle Sam roll in to pay for the care and the caretakers do only what is necessary to keep the old and the mentally feeble alive until the next check rolls in.

Something valuable has been lost in this new system. Those who used to serve well now vegetate. Their sense of worth and their contact with the community are gone. Those who used to be served by them are still contributing to the support of their would-be counterparts, but that contribution is now mandatory. As part of the work force, those performers and vendors paid their own way; now those who would have willingly taken their places serving the public on the streets selling and singing are relegated to the status of tax burdens receiving "entitlements."

When one is free to serve others as he or she chooses and earn a living in the process, not only does that individual have great meaning in life but everyone is enriched. When that service disappears because of governmental restriction and regulation, everybody loses. □

CONSUMER ETHICS

by A. M. Rogers

Are you a good customer?

People often talk about how a business should treat its customers. But how often do they talk or even think about how customers should treat a business?

Yet, there's no denying that success in doing business is a two-way proposition. It requires more than just the business treating its customers fairly. It also requires customers who treat that business fairly.

The Trusting Salesclerk

Almost everyone has had the experience of standing at the cash register in front of a long line while a salesclerk struggles to find a bar code or price tag. Instead of taking the time to call for a price check, the clerk may turn to the customer and ask, "Do you know what the price is?"

For every customer who shakes his head "no," forcing the salesclerk to call for assistance, there is a customer like Irene, a gray-haired widow, who loves to get into these situations. Though Irene knows the exact price of everything she purchases, she won't tell it to the salesclerk. She'll say "it's \$1.98" even when she knows it costs several dollars more. The fact that the salesclerk believes Irene isn't her problem, Irene says, though she'll admit it is one of the few benefits of looking like a nice old lady.

Though stores train their sales staffs on what to do when these situations arise, and

the salesclerks are not taught to ask the customer for the price, it still happens. While it's true Irene hasn't committed a criminal act, even if the clerk punches in the price given, she certainly has displayed the intent to defraud the store. She takes advantage of a clerk's earnest attempt to keep the line moving. At the least, she has proved herself not to be a very good customer.

The Salesclerk Who Doesn't Know Math

Despite the sophistication of computerized cash registers, salespeople still make mistakes. They may give too much change or too little, or they may do something even more costly.

Nancy, a math teacher, will never forget the time she was buying clothes for her four children. All of the items were reduced 20 percent from the clearance price. The salesgirl punched in the first item's price, then took 20 percent off. So far so good. Then she entered the price of the second item, subtotalled, and took 20 percent off again. Nancy stood there unable to believe her eyes. Yet, each time the clerk added another item, she subtotalled first before taking 20 percent off. What she was doing, Nancy immediately realized, was taking 20 percent off what she had already discounted. When the final bill was a little over \$10, even the salesclerk seemed puzzled. But she just quickly shrugged her doubts aside.

As for Nancy, she paid the bill without saying anything.

A. M. Rogers is an attorney and physicist living in Florida.

She told her husband later that many people wouldn't have even noticed what the clerk was doing wrong. "Why should I be penalized for knowing math?" she argued.

As Nancy sees it, it's the store's responsibility to have a well trained sales staff and, obviously, if a store doesn't, it won't be around long.

But there's another viewpoint to consider.

The store manager argues that the same people who are absolutely furious at a store when they feel they're not being treated fairly will turn around and cheat at the first opportunity.

What, for example, would Nancy have done if the salesclerk had instead charged her much more than she owed instead of less? Wouldn't she have been willing then to share her mathematical knowledge?

Good customers realize that the relationship between a business and its customers is mutually beneficial. Good businesses produce desirable products at reasonable prices.

Good customers appreciate them.

Taking Advantage of a Good Offer

A recent college graduate, Jeffrey, can't afford everything he wants. When he got an offer to receive free issues of a very expensive magazine he liked, he immediately signed up for a subscription. From the very beginning he planned to cancel the subscription as soon as the free issues ran out. And he did. The problem was that the magazine kept coming anyway and, eventually, Jeffrey was billed for a year's subscription. He even got a dunning notice from the publisher when he didn't pay.

It took more than a few months of correspondence to get the whole mess settled. And, in the end, Jeffrey did get quite a few issues of the magazine without paying anything.

Technically, Jeffrey was just taking advantage of a good offer. He wanted the free issues and nothing more. Legally, a person is not required to pay for unsolicited goods. However, the offer was intended to intro-

duce the magazine to people who might actually be interested in subscribing to it and, at the time, Jeffrey wasn't.

Someday, though, Jeffrey may be able to afford that subscription. And when he can, I hope he will subscribe and become one of the magazine's good customers.

Free Refills and All-You-Can-Eat Buffets

A retired couple, Jean and Bill order only one cup of coffee when the refills are free. It might appear that just one of them is a coffee drinker. Rather, they are coffee sharers. They also do things such as having one of them order the all-you-can-eat salad bar while the other one orders a regular entree. Then they share the entree, which is perfectly legal, and they share the all-you-can-eat salad bar, which isn't legal.

Restaurants know these things happen. Some of them put up signs on their buffets: "Don't cheat." They may even have the people working in the dining room keep watch. It's true you may get away with it. But if you like a restaurant enough to eat there, why not pay for what you eat? A good customer realizes that when a restaurant advertises an all-you-can-eat buffet the "you" is singular.

The Price of Admission

Everyone knows that a store sets an item's price without regard for who is purchasing the item. A rich person pays the same as a poor person. And no one would tolerate a store that changed its prices at will.

Yet, how about people who change the ages of their children according to how much they want to pay?

Leslie is a mother of two children who believes she is an exceptionally honest person. But when it comes to giving the ages of her children at a ticket counter, she can lie as quickly as a con artist. If it's cheaper for her ten-year-old to be eight, then suddenly he's "tall for his age."

It's the very nature of doing business that allows her to do this. No business can afford

to demand that its customers first produce birth certificates or other documentation. It would drive customers away. And, even if some customers take advantage of a business' easygoing ways, and even if this is taken into account as part of the cost of doing business, good customers won't.

Dress for the Occasion

Gloria takes great pride in not appearing in the same party dress twice. She enjoys making a grand entrance and having everyone turn to look at her. But those glances might not be so admiring if it were known how Gloria manages to appear in a different stunning dress every time.

Gloria tells people she's a smart shopper. What she doesn't tell them is that she picks out the dress of choice just a few days before the scheduled party or event. And then after she has worn it and garnered her share of appreciative looks, she returns it to the store for a full refund. "My husband didn't like it," she lies. Since most stores have extremely liberal return policies, in which returned items can even have the sales tags removed, a customer can get away with this. But a good customer wouldn't.

The Outlet Store

Maureen just bought a house and she wants to replace the kitchen stove. It's a customized stove, which she had to order from the catalogue of a major department store. When she is finally notified that the stove has arrived, she suddenly cancels her order. Did she not want the stove anymore? Not exactly. Maureen is hoping her canceled order will arrive at the store's nearby outlet store where she can then purchase it at a substantial discount.

Many major department stores have outlet stores where regular items are sold at big savings. Sometimes the items are irregulars

or returned goods. Often they include furniture, appliances, stereos, and television sets all crammed into a hodge-podge section of the outlet. People who shop outlet stores generally understand it is a hit or miss operation. At least, that's what it's supposed to be.

If the store finds enough people who behave like Maureen, it may begin to require a non-refundable deposit before ordering certain merchandise. And this would only penalize those persons who order and then cancel merchandise because of circumstances outside their control.

Taking Supplies Home

Many fast-food restaurants give their customers access to a variety of valuable items. Customers can help themselves to napkins, straws, ketchup, plastic spoons, and other supplies. If a customer doesn't use everything he takes, he is encouraged to take the unused supplies home. It is wasteful just to toss leftover napkins and unopened ketchup containers into the trash can.

But it's another matter for customers to take extra items with the intent of using them at home. Helping yourself to a wad of napkins or straws so you don't have to purchase them at the store is not part of the service fast-food restaurants are providing. That's the business of supermarkets. Good customers know the difference.

What does it take to be a good customer? In short, good will.

Good will means a customer treats the business honestly and fairly even when he doesn't have to. Good business policies and good consumer protection against fraud are necessary, but not enough to cover all the possible situations arising between a business and its customers.

It takes good will to fill in the cracks.

It takes good will to make both good businesses and good customers. □

"Therefore, whatever you want men to do to you, do also to them. . . ."

Matthew 7:12

KOSHER COPS

by Jacob Sullum

When presented with packaged food, my 5-year-old niece will carefully examine the wrapper, box, or label, looking for the symbol that assures her it's OK to eat: a *U* inside a circle, which certifies that the food has been prepared according to Jewish dietary laws, under the supervision of the Union of Orthodox Jewish Congregations of America. She will not accept a mere *K*, which represents the manufacturer's unverified statement that the product is kosher.

You might think that if a preschooler is capable of making such distinctions, so is the average adult, observant Jew. But some people don't want to take any chances. For decades regulators in 20 states have inspected businesses selling ostensibly kosher food to make sure they follow the laws of *kashrut*—which, among other things, forbid certain categories of food, require the separation of meat and milk, and specify procedures for slaughtering and preparing meat.

State *kashrut* supervision has recently come under attack in the courts. Last year the New Jersey Supreme Court overturned that state's *kashrut* regulations as an unconstitutional establishment of religion. In Maryland, a hot-dog vendor has brought a similar challenge against a Baltimore ordinance, and the case is pending in federal court.

Both cases hinge on subtle and complicated analyses of what constitutes a secular

Jacob Sullum is associate editor of Reason magazine.

legislative purpose, an advancement of religion, or an excessive entanglement with religion. But they also raise a question that the courts have not been asked to decide: Is there any area at all where consumers can be expected to look out for their own interests? State intervention in the kosher-food market illustrates a regulatory mindset that has become disturbingly common in the United States. This mindset insists that barbers must be licensed to protect consumers from bad haircuts; that every bottle of beer, wine, and liquor must alert drinkers that "consumption of alcoholic beverages impairs your ability to drive a car or operate machinery"; and that food companies must not be allowed to announce that their products contain "no cholesterol," lest consumers be misled into believing that a diet consisting exclusively of margarine and vegetable oil is healthy.

While the absurdity of these measures may be readily apparent, state *kashrut* supervision is less obviously unnecessary. After all, when a merchant or restaurateur represents that a produce or meal is kosher, he is making an assertion that may be crucially important to the buyer. Moreover, the assertion cannot be readily verified by examining the food itself. Chicken that has been slaughtered according to Jewish law is indistinguishable from ordinary chicken. A cake that has been baked with vegetable shortening looks the same as a cake that has been baked with lard. Yet kosher food (especially meat) often commands a higher price than non-kosher food. Like a jeweler

who convinces customers that his fake diamonds are the real thing, a business that could get away with passing non-kosher food off as kosher would stand to make a tidy profit.

Indeed, defenders of state *kashrut* supervision have argued that it is simply a way of enforcing laws against consumer fraud. For example, Nathan Lewin, an attorney with the National Jewish Commission on Law and Public Affairs, told *The Washington Post*: "If the state doesn't regulate, consumers will have no assurance that a food is really kosher . . . Consumers may be at the mercy of unscrupulous vendors who will sell non-kosher food as kosher. Someone who cares so little about the laws of *kashrut* could sell a product that contains pork and say it's kosher, and there will be no one around to stop that."

Even if you know next to nothing about kosher food, you might wonder how observant Jews managed to get by for thousands of years without the assistance of agencies such as New Jersey's Bureau of Kosher Enforcement. And if you're familiar with the dining and shopping habits of Jews who keep kosher, you will recognize that Lewin, like the "unscrupulous vendors" he describes, is guilty of misrepresentation. He neglects to mention that the very conditions that invite fraud in the kosher-food industry have led to an elaborate private system of consumer protection.

Private *Kashrut* Supervision

As my niece could tell you, Jews rely upon certification by religious authorities to determine whether something is kosher. There are more than 100 *kashrut* supervision services worldwide, plus publications, such as *Kashrus Magazine*, devoted to covering developments that might concern a Jew who observes the dietary laws. In addition to organizations such as the Orthodox Union, individuals often serve as *kashrut* supervisors, or *mashgichim*. (These are often rabbis, but they need not be; anyone with the proper training can do the job.)

In Los Angeles, where I live, two local

organizations and several independent *mashgichim* certify bakeries, butcher shops, and restaurants. Supervision generally involves a full-time employee trained in the laws of *kashrut*, supplemented by outside inspectors who make surprise visits on a regular basis. If you want to know whether a business has supervision, you can ask to see its certificate, which is usually on display.

Obviously, this system works only if consumers can safely assume that such certificates are genuine. As the New Jersey Supreme Court observed: "Just as the State may bar promotion of products as having been tested by a certain testing laboratory when they have not been so tested, and just as the State may bar promotion of products as having been endorsed by a certain consumer magazine when they have not been so endorsed, so may the State bar promotion of products as having been prepared under the supervision of a particular rabbi or group of rabbis when they have not been so prepared." Protecting citizens from such fraud is a legitimate function of the state.

Even with a prohibition on fraud, the system of private supervision is not perfect. It relies, to a considerable degree, on trust. Consumers trust the *mashgichim*, and the *mashgichim*, to some extent, trust business owners. This trust is based largely on shared religious values. But both *mashgichim* and the businesses they supervise have to worry about maintaining their reputations in the face of competition, which is not true of state inspectors. An establishment that has been known to mislead its customers will not stay in business long, and a *mashgiach* who is known for corruption or carelessness can no longer practice his occupation.

At first glance, the New Jersey and Maryland cases seem to suggest a need for state supervision. In the New Jersey case, a rabbi working for the state cited Ran-Dav's County Kosher in Roseland for several violations of *kashrut* rules, including failure to devein calves' tongues and storage of non-kosher chicken in the same freezer with kosher chicken. But County Kosher is also under the private supervision of another

Orthodox rabbi, who insists that the state inspector is mistaken. Rather than a case of fraud that would have gone undetected without state regulation, this seems to be a case of honest disagreement between two *mashgichim*. In the final analysis, the consumer must decide whether County Kosher's supervisor can be trusted. This is the kind of decision that observant Jews must make all the time, often after consulting with their own rabbis (who may in turn ask an organization such as the Orthodox Union).

In the Maryland case, a rabbi from Baltimore's Bureau of Kosher Food and Meat Control cited hot-dog vendor George Barghout for selling kosher frankfurters after cooking them on the same rotisserie as non-kosher frankfurters. Yet if this was his practice Barghout could not possibly have obtained a certificate of *kashrut* from a reputable *mashgiach*. Passers-by who were serious about keeping kosher would not have taken the vendor's word that the hot dogs were kosher; they would have insisted upon verification. In this case and in general, government *kashrut* supervision protects only the lenient or lackadaisical.

The Washington Post reported that the New Jersey Supreme Court's decision "may mean consumers determined to keep kosher may have to do a lot more homework themselves on the products they buy." In fact, observant Jews in New Jersey and elsewhere will continue to do what they have always done: look for the mark or certificate showing that a product or establishment passes muster with a religious authority they trust. This is really not a major obstacle, especially since kosher-food consumers tend to be highly motivated.

A Special-Interest Plea

In the end, the arguments for state *kashrut* supervision boil down to a special-interest

plea: Some kosher-food consumers would like the government to subsidize their search and transaction costs. They may feel that the added assurance of state regulation allows them to be a little less careful. Or they may simply get a psychological benefit from knowing that private *mashgichim* are backed up by government inspectors. "I would want the support of the state," says Rabbi Nissim Davidi, administrator of *kashrut* supervision with the Rabbinical Council of California. At the same time, he admits that he's never had any contact with California's kosher-food regulators, and he's not sure exactly what they do.

You might think that state *kashrut* supervision would long ago have attracted the attention of anti-Semites. But the ACLU, anxious to maintain the separation of church and state, seems to worry about it a lot more than the American Nazi Party does. On the other hand, anti-Semitic propaganda has for years railed against what hate groups call "the kosher tax." This is the alleged increase in price that results when a food company pays for private *kashrut* supervision, so that its products can display a mark of certification. According to the hate literature, the Jews are mysteriously able to impose this price hike on manufacturers and consumers. For those who don't buy Jewish-conspiracy theories, a more plausible explanation is that the companies have calculated that the extra business generated by *kashrut* certification more than makes up for the cost of supervision. (Hence no price increase is necessary.)

Ironically, it's this private, voluntary, market-driven process that attracts the attention of anti-Semites. So far, they seem oblivious to state *kashrut* supervision, which actually is a public subsidy, albeit a drop in the ocean of special-interest benefits doled out by government. I won't tell them if you won't. □

THE ROLE OF BRANDS IN CONSUMER MARKETS

by William G. Stuart

One criticism of the modern consumer democracy is the plethora of brands and products. Self-appointed consumer advocates compare brand-name products to generic products and determine that the difference in performance does not justify the price. Their conclusion: The brands represent a colossal waste of resources in packaging identity, promotion, and advertising.

These critics fail entirely in understanding the vital roles that brands serve in the modern, consumer-driven economy. Consumers continue to purchase branded products not out of misguided or manipulated habits, but rather because the brand name provides them with two attributes critical to their mission as consumers: product information and consumer protection.

Brands as Sources of Information

Imagine a consumer who wants to purchase an automobile in a market in which automobiles do not have brand names. There is no Taurus, no Cutlass Ciera, no Acura. Instead, her options are among a lot full of automobiles that have no manufacturer identity or brand names. She seeks information to aid her in making her purchase. Some of the information she can

gather quickly; she can, for example, look at the various cars on the lot and determine which vehicles meet her preferences for size, style, and color.

Most of the other information, though, she cannot gather by sight alone. How reliable will the vehicle be over time? To answer this question, she must hire a mechanic to inspect the vehicle to determine how mechanically sound it is. The mechanic's summary will tell her how sound the car is today, but he can only guess as he projects how it will perform over time—after all, he has no industry reports about the long-run performance of specific automobile brands.

Our consumer cannot gauge other aspects of vehicle performance, such as quality of the ride over varying road surfaces and fuel consumption, without experiencing the car firsthand. Thus, she must take an extended road test (perhaps three or four hundred miles) to estimate fuel economy and experience vehicular performance in different driving conditions.

The decision that she ultimately makes will be more of an art than a science. She simply will have inadequate qualitative and little quantitative information on which to base her choice. She may make a good choice, but that outcome will be more a matter of luck than of a solid conclusion based on sufficient evidence.

By contrast, let us shift to the current world, one in which vehicles are branded and positioned to appeal to a certain market

William G. Stuart is a sales executive living in Cummaquid, Massachusetts.

segment. As our consumer ponders the decision to replace her car, she begins to notice print and television advertising of automobile brands. As she assesses her needs, she is able to exclude many brands and models from consideration and focus on a few alternatives. Advertising, far from being the manipulative tool that its critics claim, actually transmits important information to her. Advertising places the vehicle in a context (an economy car, a passenger van, and a four-wheel drive vehicle are positioned very differently in advertising) and exposes the consumer to important information about the car (fuel economy, handling, special features).

Her next step may be to review literature in the popular press, including consumer magazines, to determine how the vehicle performs, how it holds up over time and how economical it is to operate. She can find qualitative information (such as the impressions of professional test drivers) and quantitative information (statistical surveys of repair histories and fuel economy) of that brand. This information is statistically accurate but impersonal. She may then choose to speak with a mechanic who services the brand and survey several friends who drive this vehicle brand to obtain their more personal testimonials.

All of these information avenues are available to her because the vehicles are branded. If there were no brands, nobody could compile information accurately. Consumer surveys would be impossible, since there would be no way to distinguish one automobile from another. A mechanic would have no way of distinguishing his impressions of one vehicle from another. And it would be difficult to determine whether a friend or neighbor has the same vehicle as a potential buyer, since it would be difficult to distinguish among cars.

The larger the dollar amount and the more complicated the product, the more important the role that information plays. A consumer purchasing rolled oats, for example, is far less interested in information than is a car buyer. Beyond the basic question of whether the oats are free from contami-

nants, the purchase is not complicated; a mistake results in a small monetary loss or less enjoyment than anticipated. In contrast, a poor decision about a computer, automobile, house, or business results in greater degrees of consumer discomfort or pain.

Brands as Consumer Protection

A century ago, branding was in its infancy. At that time, people still made most of the products that they consumed (such as food, soap, and clothes) or purchased them directly from producers who were their friends and neighbors. People had faith in the quality and safety of the products because they knew the people who made them.

As our economy became more specialized—a trend that, as Adam Smith predicted, created an unprecedented degree of wealth—consumers were more removed by both distance and time from producers. The introduction of labor-saving machinery, which increased productivity markedly, also dictated the concentration of producers in a manufacturing area. Thus, the village silversmith or baker or cobbler was replaced by a factory that produced a high quality product at a more competitive price. Consumers valued the potential quality consistency and savings, but they no longer knew the people who made their products. Similarly, as individual consumers became more specialized in their roles as producers, they themselves made even fewer of the products they consumed and relied increasingly on other specialists to meet their material needs.

In a large market, consumers do not care who makes their products. In this sense, the market is the great equalizer, as producers of all races, ethnic origins, religions, and genders unleash their creative energies to meet the needs of consumers. While consumers do not care who makes the products, they care very much how the products perform. They want to know that the product they purchase will meet their expectations.

In this consumer environment, brands play a critical role. When consumers first

started purchasing more food and raising less themselves, they purchased items from a bulk bin. They had no information about what ingredients the products contained, how safe they were, and how they would perform. Branding created the protection that consumers demanded. The brand name signified a level of quality and consistency consumers could trust. Thus, Quaker Oats, Ivory Soap, and Levi's instilled in consumers a degree of confidence that their unbranded competition did not.

Defining Brand Expectations

Brands are effective only when the product delivers a consistent level of quality from product to product. McDonald's delivers the same level of quality regardless of location or time of visit. A consumer may choose not to dine there for a particular meal, but that decision is not a rejection of branding. Rather, it is an informed decision not to consume that expected level of quality on a particular occasion.

Consumer confidence in brands varies with the type of product. Typically, confidence in branded goods—such as automobiles, detergents, movies, and clothing—runs extremely high. After all, standards can be defined and controlled strictly when the product is produced entirely in one central location and can be inspected before being presented to consumers. These brand names deliver the highest level of consumer confidence. The consumer may accept or reject the product; in either case, the decision is made with a clear expectation about the performance or level of quality of the goods.

Confidence in a product that is composed of a combination of both good and service is somewhat reduced because part of the output cannot be controlled in advance. A McDonald's hamburger, bun, lettuce, and tomato can be inspected before they arrive at a particular franchise, but other inputs—the actual cooking and preparation, the attitude of workers, the cleanliness of the facility—are presented live to consumers. The challenge the McDonald's manager

faces in making his product the same from day to day and consistent with every other restaurant in the chain is the same challenge that the theater director faces making his live production uniform from show to show and consistent with other presentations of the play elsewhere. The managers who master this challenge reap the spectacular reward of a valuable brand identity, while those who do not perform so well find the brand image tarnished. For every example like McDonald's, which has mastered this challenge, there are many restaurant or lodging chains whose quality is not consistent over time and location and thus whose brand name in consumers' eyes represents a range rather than a fixed point.

Products whose consistency varies from unit to unit have brand names of more limited value to consumers seeking confidence. "Republican," for example, is a brand name about which consumers (voters, contributors, activists) can make some generalizations, but candidates running under the Republican label may have very different perspectives on problems and very different approaches to solving them.

The trend toward branding is expanding. Buoyed by the success of poultry marketers, beef companies and egg producers now are branding their products. More and more produce is wrapped and branded. Similarly, grocery stores that once sold "generic," no-brand products (packed in white packaging with black lettering) are now applying their store name as a brand on more and more "house brands."

These moves, far from being the wasteful, price-raising schemes that critics contend, are a response to needs that consumers in a more complex environment demand: information and consistency. The trend toward branding products, identifying certain characteristics with the brand and striving toward uniform brand quality will continue as long as consumers continue to seek confidence in the purchase decisions that they make. Brands continue to offer self-regulating, informed consumers both the information and level of quality that they demand in the free market. □

FRIEDMAN AND NORTH ON VOUCHERS

To the Editor:

Re the article by Gary North in the February 1993 *Freeman* on "Educational Vouchers," may I call the attention of your readers to the following quotation from my wife's and my book *Free to Choose* (pp. 161-163):

This plan [the voucher plan we propose] would relieve no one of the burden of taxation to pay for schooling. It would simply give parents a wider choice as to the form in which their children get the schooling that the community has obligated itself to provide. The plan would also not affect the present standards imposed on private schools in order for attendance at them to satisfy the compulsory attendance laws.

We regard the voucher plan as a partial solution because it affects neither the financing of schooling nor the compulsory attendance laws....

The compulsory attendance laws are the justification for government control over the standards of private schools. But it is far from clear that there is any justification for the compulsory attendance laws themselves. Our own views on this have changed over time. When we first wrote extensively a quarter of a century ago on this subject, we accepted the need for such laws on the ground that "a stable democratic society is impossible without a minimum degree of literacy and knowledge on the part of most citizens" [*Capitalism and Freedom*, p. 86]. We continue to believe that, but research that has been done in the interim on the history of schooling in the United States, the United Kingdom, and other countries has persuaded us that compulsory attendance at schools is not necessary to achieve that minimum standard of literacy and knowledge. As already noted, such research has shown that schooling was well-nigh universal in the United States before attendance was required. In the United Kingdom, schooling was well-nigh universal before either compulsory attendance or government financing of schooling existed. Like most laws, compulsory attendance laws have costs as well as benefits. We no longer believe the benefits justify the costs.

The danger North raises that a parental choice scheme that made vouchers available for both government and private schools would lead to efforts to control the curriculum of private schools is very real, but it is present now because of compulsory attendance laws. Moreover, in a well-drawn voucher initiative, such as the one that will be on the California ballot at the next general election, provision can be made for avoiding that outcome. To quote from the California Parental Choice Initiative:

Private schools shall be accorded maximum flexibility to educate their students and shall be free from unnecessary, burdensome, or onerous regulation. No regulation of private schools, scholarship-redeeming or not, beyond that required by this Section and that which applied to private schools on October 1, 1991, shall be issued or enacted, unless approved by a three-fourths vote of the legislature or, alternatively, as to any regulation pertaining to health, safety or land use imposed by any county, city, district, or subdivision of the State, a majority vote of qualified electors within the affected jurisdiction. In any local proceeding challenging such a regulation it shall have the burden of establishing that the regulation: (A) is essential to assure the health, safety, or education of students; (B) does not unduly burden private schools or the parents of students therein; and (C) will not harass, impede, injure, or suppress private schools.

My ultimate objective is precisely the same as Gary North's, but I do not believe that we can get there from here without a transitional measure. That is what the voucher proposal is intended to provide.

—Milton Friedman,
Senior Research Fellow
Hoover Institution, Stanford, California

Dr. North replies:

In his letter, Dr. Friedman cites his 1980 book, *Free to Choose*: "This plan would

relieve no one of the burden of taxation for schooling." This is the heart (and soul) of the problem with vouchers. The problem is not primarily one of economic efficiency; it is a problem far more fundamental: the locus of judicial authority over education. He who pays for schooling is asserting this authority.

Here is the crucial question: Who is responsible before God for the education of children, their parents or the state? I contend that it is the parents. I therefore reject educational vouchers on principle. But more to the point, I reject them even as a transitional tactic, for vouchers will reduce the freedom of sectarian parents to choose by reducing the supply of sellers who will supply sectarian education.

When I wrote the first version of my essay "Educational Vouchers: The Double Tax" in 1976, I had Dr. Friedman's *Capitalism and Freedom* (1962) in hand. That book has become a classic in the literature of free market economics. But it has a flaw. It promotes educational vouchers (chapter 6), while denying the efficiency and the necessity of occupational licensing (chapter 9).

What I argued in my essay is that state-funded vouchers are part of a program of state licensing. For the state to establish mandatory standards of performance in any profession is to proclaim its authority over that profession. Licensing involves the creation of *legal barriers to entry* against those who cannot meet the state's standards and also those who work in terms of rival standards. Similarly, for the state to establish subsidies for any profession is to proclaim its authority over that profession. Subsidies involve the creation of *legal barriers to economic survival* against those who cannot meet the state's standards and also those who work in terms of rival standards. So, I conclude, if there is no legitimate reason to license a profession, there is no legitimate reason for the state to create a voucher system to fund it.

There can be no state subsidies apart from criteria that restrict access to the subsidies; otherwise, there would be greater demand for the "free" money than supply of the

"free" money. The state uses regulations to ration access to the "free" money. In Dr. Friedman's proposed system, all parents ("buyers") will have access to the state's "free" money (vouchers). I contend that all schools ("sellers") will not. Those schools that deny the legitimacy of the state's standards will be denied legal access to the money. Why? *Because the money used to subsidize some schools at the expense of others does not belong to the parents; it belongs to the state.*

An educational voucher program enlists the parents as the state's agents in a program of judicial discrimination against those schools that proclaim state-disapproved standards. Vouchers are, in the vernacular, "hush money." Teachers are bribed with tax money to keep silent on certain topics—most notably, the topic of God and his sovereignty over history. . . .

Here is our problem: Modern education rests on the myth of religious neutrality. Modern education asserts: "By means of a religiously neutral methodology, teachers and students can come to an accurate understanding of cause and effect." Any discussion of cause and effect which appeals to God's sovereignty over history is dismissed as "religious," and is thereby barred by the U.S. Supreme Court from any tax-funded classroom. Only a methodology which systematically ignores the question of God has legal access to a tax-funded classroom or educational program. . . .

Thus, it is irrelevant that the language of a California voucher proposal appears to protect the authority of parents to choose any school they desire for their children. The U.S. Supreme Court has determined what curriculum standard must apply in state-funded education: a compelling secular purpose (see *Lemon v. Kurtzman* and *Hunt v. McNair*, 1971). Parents will be free to choose when they use the state's money, but their choices will be limited to state-approved schools. They will be free to choose only what the state approves.

I learned all this from *Capitalism and Freedom* —excluding chapter 6. □

Books

The Twilight of Sovereignty: How The Information Revolution is Transforming Our World

by Walter B. Wriston

Charles Scribner's Sons • 1992 • 256 pages
\$25.00

Reviewed by Perry E. Gresham

This new book by Walter Wriston, *The Twilight of Sovereignty*, is a clear overview of our present predicament. We are in a global market without full realization of its implications. Petrarch and Boccaccio, Lorenzo and the Medici did not know they were in the Renaissance. The name was applied by historians who looked back on a previous time in world events.

Nor did Adam Smith, James Watt, Alessandro Volta, and Thomas Edison think of themselves as the pioneers of the Industrial Revolution. There were great dislocations involved, but they were not understood in perspective. As we look back at those eras, we see the periods as the great transitions which they were, and, we give them names.

Today we are in the cybernetic revolution. Information knows no boundaries. The market is world-wide. Technology has enabled us to perform the same tasks with many fewer people. This means a certain amount of unemployment. It also signals a new demand for entrepreneurs and new skills. Wriston recognizes intelligence and learning to be the most valuable capital of any business or government.

Leonard Read wrote an essay, "I, Pencil," which portrayed the interdependence of our modern market. Wriston does the same thing with automobiles. He shows up the fallacy of our modern mistaken demand for keeping all work, sales, purchases, jobs, and money within our own borders.

No nation can control its own information

or its own money. When the market opens in New York it is open to the world at the same time. Information knows no borders. Tokyo, London, Paris, and Berlin are involved in our market as we are in theirs. The market is global.

From his pinnacle of world finance as CEO of Citicorp, Walter Wriston was acutely aware of all of these global factors. His book understands our present predicament, and suggests ways the market can operate if it is free from government domination.

Governments and corporations alike are losing their sovereignty. Wise leaders will recognize this, and there will be a rebirth of individual liberty in a world-wide context. □

Dr. Gresham is President Emeritus of Bethany College and a Trustee Emeritus of The Foundation for Economic Education.

The Coming Economic Earthquake

by Larry Burkett

Moody Press, Chicago, Ill. • 1991 • 230 pages
\$15.99

Reviewed by Leonard Gaston

In the last two decades, Keynesian demand management economic theory has come under increasing attack. The most telling salvos have been leveled by economist James Buchanan, whose Nobel prize in 1986 for his critique of applied Keynesian theory set off a storm of protest in liberal academic circles. Paul Craig Roberts, Jude Wanniski, and others have continued to question the wisdom of what had previously been almost unquestioned economic orthodoxy. Nevertheless, Keynesian theory continues to dominate the policy-making of the federal government.

In a book written for the layman, Larry Burkett has reviewed the accomplishments of a growing federal government busily applying demand-centered economic policies (growing federal deficits and debt, increasing use of debt by business and house-

holds, and government regulation gone wrong), and concluded that severe economic troubles lie ahead. He does not set dates, but like an observer sitting on a hill overlooking a large ice-bound river, he simply points out that the ice is piled up in abnormally high and massive ice dams, and that spring is inevitably on its way. It may be early, or it may be late, but as surely as the seasons roll, the ice will eventually break up and flood down the river. Whoever stands in its path may be wiped out.

Keynesian economic policies—with their explicit license for continuing federal deficits and their implicit preference for higher levels of consumption, reduced saving, and a larger role for government in the economy—are one of two things. They are, as mainstream economists have told college economics students since World War II, the means to continued, depression-proof prosperity. Or they are, as others like Mr. Burkett insist, a prescription for disaster.

A review of textbooks written by prominent economists supporting the first position will turn up statements that now inspire less confidence than they did when first written. One author (the Chairman of President John F. Kennedy's Council of Economic Advisors) had no doubts about the desirability of deficit spending when he wrote in his 1960s college text that the country faced the prospect of deficits of choice ("deficits of strength") incurred as necessary to sustain demand, or deficits due to low revenues ("deficits of weakness") incurred because the federal government lacked the will to follow the dictates of Keynesian theory. Another text of the time insisted that the debt was not a real problem, because, although larger year by year, it nevertheless was a smaller fraction of the nation's gross national product. (That was true at the time, but has not been true since 1974.) Still another insisted that the debt should not be a source for worry since ". . . technically there is never any question of the federal government going bankrupt. It can always manufacture money."

That, Mr. Burkett insists, is exactly the

point. As the interest on the debt consumes a larger and larger portion of the yearly federal budget, and more money is borrowed each year to pay the interest on what was borrowed in previous years, the temptation will become overwhelming to "monetize" the debt, first a little bit at a time, and then at an increasing rate. The possible result? Chaos, in the manner of post-World War I Germany.

This book traces the path that other governments have followed in reaching the brink and plunging over. It also describes the impact that hyperinflation has on a society. It even takes away the faint hope that those deeply in debt might entertain—that they could pay off their debts in devalued dollars. Mr. Burkett believes that laws would be passed to protect those banks still solvent, indexing all debts to the rate of inflation. Ordinary debtors, many without jobs because of the resulting depression, could then be faced with debts on homes, cars, and other goods many times the amount they initially borrowed.

Is this too gloomy a scenario? Perhaps. But Mr. Burkett builds a solid case for an impending economic earthquake. He also outlines actions that he believes necessary to prevent it (bring federal spending under control and restore fiscal discipline through a line-item veto or other actions). He doubts, as the reader may also, that such steps will be taken by our elected leaders in time to prevent fiscal chaos.

Although readers of this book may or may not agree with the author's religious views, they are likely, in an age when values are something not much talked about, to find the author's emphasis on values thought provoking.

If this book leaves the reader with a concern that Mr. Burkett may be correct, he will find interesting the author's advice for minimizing the personal financial damage that may result from an economic earthquake. □

Dr. Gaston is an assistant professor, College of Business Administration, Central State University, Wilberforce, Ohio.

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AUGUST
1993
VOL. 43
NO. 8

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$25.00 or more receive a subscription to *The Freeman*. Additional copies of single issues of *The Freeman* are \$2.00. For foreign delivery, a donation of \$40.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available on microfilm and CD-ROM from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. A computer diskette containing the articles from this month's issue is available from FEE for \$10.00; specify either 3½" or 5¼" format.

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FAX (914) 591-8910

PERSPECTIVE

I Need My Wants

I grew up in Chicago during the Depression. At that time, in that place, a *need* referred to food, shelter, and clothing. Today, some wants have escalated into needs.

Recently I asked one of my granddaughters what she wanted for Christmas.

"I need a Ken doll." (Ken, as in Barbie and Ken.)

"You don't need a Ken doll; you want a Ken doll."

"No, I *need* a Ken doll."

Already, at age eight, my granddaughter sensed the significance of changing her request from *want* to *need*. Needs are essential; wants are tinged with greed. She did not want that stigma.

There's a hint of something else here. Shifting an object from want to need shifts the focus from the "needy" person to the potential filler of the need. The unspoken words might go like this: "The Ken doll is a genuine need. You are able to meet that need. Will you meet my need?" Will I be a good grandfather?

Because of my long-time friend's terminal illness, I did yard chores for him. I remember his raising the want/need condition to a different level.

"Stan, the lawn needs mowing," he told me three times over a two-day period before I mowed the lawn.

His statement contains not only the possible hidden agenda in my granddaughter's response, but two other items. First, the need was transferred from him to the lawn: "Hey, don't look at me. Mowing isn't my need; it's the lawn's need." The needy person becomes the self-appointed spokesman for something outside himself.

Second, his remark is in the form of a statement, not a request, not: "Stan, would you mow the lawn, please?" I notice that many men have difficulty asking another man for help. (I learned that first by observing my own behavior.)

I believe neither my granddaughter nor my friend intended the meanings I have breathed into their statements. They may

have felt a need or a lack, but feeling does not make it so. Neither product—yes, a lawn is a man-made product—is a necessity.

I don't believe my granddaughter's and friend's perceptions of reality are isolated events. Their common perceptions are, I have observed, part of a national perception.

Whatever the cause for our misperception, our survival as individuals, as families, and as a nation is dependent upon knowing the difference between needs and wants.

—STAN KARP

The Advantage of Being Armed

Besides the advantage of being armed, which the Americans possess over the people of almost every other nation, the existence of subordinate governments, to which the people are attached and by which the militia officers are appointed, forms a barrier against the enterprises of ambition, more insurmountable than any which a simple government of any form can admit of. Notwithstanding the military establishments in the several kingdoms of Europe, which are carried as far as the public resources will bear, the governments are afraid to trust the people with arms.

—THE FEDERALIST

The Unfairest Taxes

In 1790, the U.S. Tariff Code consisted of a single sheet of paper. Today, there are more than 8,757 tariffs—plus lots of quotas, so-called voluntary import restraints, and other import restrictions. These trade barriers cost consumers \$80 billion per year—about \$800 for every American family.

—EXECUTIVE ALERT

East and West

In recent months I have run into many people who say that because I am an Asian-American, I must recognize the superiority of Eastern culture over Western culture, and that I should be championing the virtues of Eastern culture such as civility and re-

spect for moral authority, the elderly, and the family.

It is true, Asian culture and civilization have contributed much to the life of the mind: In philosophy, we have the names Confucius, Mencius, Chuantze, and Lao-Tze; in literature, we find outstanding writers such as WuChien-An, Li-Po, and Tu-Fu; in art, we find great work by Tang Po-Hu; and in music, there is Kuanghan-Chin.

I value and respect what these great Asian people have contributed to improving the quality of life for both Westerners and Easterners. But, at the same time, my mind keeps returning to the West. It was Shakespeare who wrote *Romeo and Juliet* and George Eliot who wrote *Silas Marner*; Nathaniel Hawthorne wrote *The Scarlet Letter*, and Charles Dickens, *David Copperfield* and *Great Expectations*. Bach composed the Brandenburg Concertos; Vivaldi, "The Four Seasons." Dante told us about hell and Milton about paradise. Plato gave us the Socratic dialogues; Aristotle told us about logic. Thomas Aquinas explained why it is rational to believe in the God of the Bible. Our Founding Fathers gave the world the Declaration of Independence and the Bill of Rights; Abraham Lincoln delivered the Gettysburg Address and affirmed the important truth that all men—black, white, and yellow, Eastern and Western—are created equal.

I am on the side of those scholars and people of good will who want to encourage a great conversation among the moral and intellectual giants of both Western and Eastern cultures and civilizations. We need to understand and appreciate and read and study the great works of Eastern (Asian) writers, philosophers, historians, musicians, and artists, as well as the great works of the moral and intellectual giants of the West.

However, I refuse to believe that because I am Asian-American I must say that Asian culture and civilization are superior to Western culture and civilization. It is the West, not the East, that has been most influenced by Christ, and that has made all the difference.

—HAVEN BRADFORD GOW

THE NEW INDUSTRIAL POLICY

by Thomas J. DiLorenzo

Money will go where the political power is . . . It will go where the union power is mobilized. It will go where the campaign contributors want it to go. It will go where the mayors and governors as well as congressmen and senators have the power to push it. Anyone who thinks government funds will be allocated to firms according to merit has not lived or served in Washington very long.

—Senator William Proxmire, 1983

These remarks by former Senator William Proxmire, Democrat of Wisconsin, presented during 1983 Senate debates over industrial policy, explain why current proposals for an interventionist “industrial policy” have little chance of improving economic efficiency. It is an iron law of politics that governmental schemes to support or subsidize certain industries will be guided primarily by political motivations—by pork-barrel politics—not by economic efficiency or “competitiveness” considerations.

Indeed, in many instances the very existence of government intervention—subsidies for failing businesses, for example—is inefficient and a hindrance to economic growth. One of the virtues of a free-market economy is that it rewards businesses that are efficient in serving their customers and penalizes others that aren’t. Government intervention to prop up failing businesses only slows down the necessary market reallocation of resources that must take

place in order to maintain a healthy economy.

One implicit assumption behind all proposals to “target” governmental assistance to “strategic” industries is that those doing the targeting will somehow be able to isolate themselves from political reality. But a politician who ignores politics is like a cat that barks; there is no such animal. As Nobel Laureate economist James Buchanan has explained:

Politicians are politicians because they want to be. They are no more robots than other men. Yet the politician who would do nothing other than reflect the preferences of his constituents would, in fact, be robotlike in his behavior. Few, if any, politicians are so restricted. They seek office because they seek “profit” in the form of “political income” which will normally be obtained only if their behavior is not fully in accord with the desires of electoral majorities. Those . . . who are attracted to politics as a profession are likely to be precisely those who have considerable interest in promoting their

Dr. DiLorenzo is Professor of Economics in the Sellinger School of Business and Management at Loyola College in Baltimore.

own version of good government, along with those who see the opportunities for direct and indirect bribes, and those who evaluate political office as a means toward other ends.¹

Interventionist industrial policies are nothing new. There have always been "collaborative" efforts between business, government, unions, and other groups, and the results have always been overwhelmingly guided by politics, not economics. More often than not, such collaboration turns into a conspiracy to raise prices, cut off competition, or loot the treasury. As Adam Smith remarked over two centuries ago in *The Wealth of Nations*: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

Allegedly Successful Industrial Policies

One of the most prominent and outspoken proponents of an interventionist industrial policy is MIT's Lester Thurow. At a time when socialism and centralized economic planning have been thoroughly discredited, Thurow—and quite a few other intellectuals, industrialists, and policy makers—is still arguing for greater governmental "planning" of the economy. Just what these would-be planners have in mind is clearly indicated by the examples offered by Thurow of allegedly successful industrial policies of the past. These policies, says Thurow, should be viewed as models for all of American industry.

In a report for the Center for National Policy entitled "The Case for Industrial Policies," Thurow hails government subsidies to the nineteenth-century transcontinental railroads as a stellar example of a "successful" industrial policy which serves as a model for the rest of American industry.²

While it is true that certain large corporations (and their employees and stockholders) did benefit—at least for a time—from

land grants and other subsidies to some of the builders and operators of the transcontinental railroads, the overall effect of this particular industrial policy was to create a grossly inefficient industry in which all but one firm—the only one not to accept government subsidies—went bankrupt at some point.

Historical revisionists such as Thurow have long argued that without government subsidies the transcontinental railroads would not have been built—just as it is argued today that certain industries deserve subsidies because they allegedly may provide "the jobs and technology of the future." But there is a problem with this historical revisionism. As economic historian Burton W. Folsom, Jr., has pointed out: "While some of this rush for subsidies was still going on [in the late nineteenth century], James J. Hill was building a transcontinental from St. Paul to Seattle with no federal aid whatsoever. Hill's road was the best built, the least corrupt, the most popular, and the only transcontinental never to go bankrupt."³

The entrepreneurial Hill boasted that "our own line . . . was built without any government aid, even in the right of way, through hundreds of miles of public lands, being paid for in cash."⁴ Hill understood all too well that with government subsidy comes government control, which is always detrimental to an efficiently run business. His competitors all ignored this lesson and found themselves drowning in bureaucracy, red tape, and regulation.

Congress' decision to grant *per-mile* subsidies to the builders of transcontinental railroads had economically ruinous effects. Since they were being paid by the mile, the railroads sometimes built winding, circuitous roads to collect for more mileage. The Northern Pacific and Central Pacific railroads were notorious for building with cheap materials and stressing speed over workmanship.

The "rush for subsidies" led to other perversities, such as building miles of track on top of several feet of ice in the Northern Rockies. When the spring thaw melted the

ice, the tracks collapsed. The railroads simply rebuilt them and collected even more subsidy payments, courtesy of the U.S. taxpayers. Because of such inefficiencies the building of the transcontinental railroads cost three times more than originally estimated.

The building of the transcontinental railroads by the Northern Pacific and Central Pacific may have been inefficient, but their schmoozing of politicians and their subsidy seeking was not. For example:

[Union Pacific Vice President] Thomas Durant wined and dined 150 "prominent citizens" (including Senators, an ambassador, and government bureaucrats) along a completed section of the railroad. He hired an orchestra, a caterer, six cooks, a magician, and a photographer. For those with ecumenical palates, he served Chinese duck and Roman goose; the more adventurous were offered roast ox and antelope. All could have expensive wine and, for dessert, strawberries, peaches, and cherries. After dinner some of the men hunted buffalo from their coaches. Durant hoped all would go back to Washington inclined to repay the UP for its hospitality.⁵

As is true of any type of interventionist industrial policy, when the financial success of a business depends critically on procuring government subsidies, it is bound to pay more attention to bribing the subsidy grantors than producing and marketing a competitive product. Industrial competitiveness inevitably suffers while governmental power expands.

Another feature of all industrial policies is that the power to subsidize is also the power to destroy. Government regulation always accompanies subsidies. This is why Hillsdale and Grove City Colleges, virtually alone among educational institutions, have refused to accept any form of governmental aid. The administrators and trustees of these institutions know that their independence and integrity would be compromised if they were to accept subsidies.

Some of the subsidized railroads eventu-

ally came to realize this as well. Union Pacific's president, Charles Francis Adams, complained that because of regulation "[w]e cannot lease; we cannot guarantee, and we cannot make new loans on business principles, for we cannot mortgage or pledge; we cannot build extensions, we cannot contract loans as other people contract them. All these things are [prohibited] to us. . . ."⁶

As Folsom concluded, subsidies to the transcontinental railroads "bred inefficiency; the inefficiency created consumer wrath; the consumer wrath led to government regulation; and the regulation closed the UP's options and helped lead to bankruptcy."⁷ This is a lesson that today's industrial policy advocates have chosen to ignore.

The Great Northern

James J. Hill's Great Northern transcontinental railroad was a stark contrast to the other heavily regulated, bureaucratized, and grossly inefficient roads. Hill and his business partners purchased a nearly bankrupt (subsidized) railroad, the St. Paul and Pacific, in 1878. Unburdened by the political dictates of an industrial policy, Hill built his railroad according to economic, not political criteria. "What we want . . . is the best possible line, shortest distance, lowest grades and least curvature that we can build. We do not care enough about Rocky Mountain scenery to spend a large sum of money developing it."⁸

Hill personally supervised the building of his railroad, never skimping on quality materials. He assisted the farmers in the vicinity of his line by funding experimental planting programs and offering rewards for "the fattest cattle" and the most productive wheat fields. He did this because of his recognition that "we are in the same boat with you, and we have got to prosper with you or we have got to be poor with you."⁹ Hill's personal tenacity enabled him to out-compete his heavily subsidized rivals who, burdened by regulation, *all* went bankrupt in 1893.

In sum, historical revisionists such as Thurow, who point to the government-

subsidized transcontinental railroads as a “successful” industrial policy, are either poorly informed about them or are being very selective in their descriptions. While it is true that the government’s industrial policy did contribute to the building of transcontinental railroads, it also deterred other entrepreneurs, like Hill, from building them with private funds and doing so much more efficiently. The gross inefficiencies of the government-subsidized railroads swamped any social benefits from the subsidies. Furthermore, the granting of subsidies encouraged others—not just in the railroad business—to seek similar handouts, which fostered a culture of political greed and corruption.

The USDA Model of Industrial Policy

A second “model” of a supposedly “successful” industrial policy, according to Thurow, is American agricultural policy. Here Thurow seems to commit the *post hoc, ergo propter hoc* (after this, therefore because of this) fallacy: American agriculture is efficient enough to feed America and much of the rest of the world. An interventionist agricultural policy exists. Therefore, the policy must *cause* the success of American agriculture. Another example of this fallacy would be: A rooster crows, and the sun rises every morning. Therefore, the rooster’s crowing must cause the sun to rise.

A more accurate interpretation would be that American agriculture has succeeded—to the extent that it has—*despite* the government’s agricultural policy, not because of it. America’s agricultural policy, rooted in the farm programs of the New Deal that were ruled unconstitutional in the 1930s, is a clear example of the failures of central planning. James Bovard noted the similarities between U.S. agricultural industrial policies and the now-defunct, centrally planned economies of the former Communist countries:

There are striking similarities between how America manages its agriculture and

how Eastern European governments manage their industries. In Hungary and in Mississippi, prosperity often depends more on political connections than on economic achievement. In Czechoslovakia and in Illinois, the government pays not according to whether a product is sold, but whether it is produced. In Eastern Europe there are stocks of unused, often worthless manufactured goods; in the United States we have our rotting mountains of surplus cheese, butter, and corn.¹⁰

Although all industrial policies amount to little more than corporate welfare dressed up as a legitimate economic policy, there is much evidence that Thurow’s vaunted agricultural policies do not even benefit farmers in the long run. According to Clifton B. Luttrell, who spent 35 years as an agricultural economist at the Federal Reserve Bank of St. Louis:

The power of the federal government has been used for more than half a century to transfer wealth from taxpayers and consumers to a small group of landowners and agricultural suppliers via the farm program. In many cases, these amount to reverse transfers: subsidies by the less affluent for the more affluent. . . .

Our current agricultural programs . . . contain an internal growth mechanism. The various instruments of U.S. farm policy—acreage controls, non-recourse commodity loans, export subsidies, dairy cattle buyouts, tariffs, import quotas, price supports, government land rental programs, direct payments to producers, and others—all have the effect of increasing the returns to farmers. In so doing, however, they increase the incentive to produce. Over the long run, then, they are self-defeating, because they encourage the use of new and excessive resources in the industry.

In the presence of these new resources, returns are once again diluted, and subsidies must be ratcheted up again just to return to the earlier income standard. Repeated several times, this cycle can

consume enormous amounts of government aid without significantly improving farm welfare.¹¹

American agricultural policy is a carnival of corruption and inefficiency. In order to win votes and campaign contributions from a small but politically influential group—the farm lobby—government pays wealthy corporate farmers millions of dollars annually *not* to produce food; enforces cartel agreements with the explicit purpose of making food more expensive for American consumers—an especially cruel policy toward the poor; gets farmers hooked on federally subsidized debt that most farmers can never repay; subsidizes the use of chemical pesticides and other substances that are a major source of water pollution; and constitutes a perpetual drain on the taxpayers' pocketbooks.

H. L. Mencken understood the true manifestations of agricultural policy when he had this to say about subsidy-seeking farmers:

Let the farmer, so far as I am concerned, be damned forever more! To hell with him and bad luck to him! He is . . . simply a tedious fraud and ignoramus, a cheap rogue and hypocrite, the eternal Jack of the human pack. . . . No more grasping, selfish and dishonest mammal, indeed, is known to students of the Anthropoidea. When the going is good for him he robs the rest of us up to the extreme limit of our endurance; when the going is bad he comes bawling for help out of the public till.¹²

Mencken went on to ask a series of questions that could well be asked of *any* industry proposing an "industrial policy" for itself.

Has anyone ever heard of a farmer making any sacrifice of his own interests, however slight, to the common good? Has anyone ever heard of a farmer practicing or advocating any political idea that was not absolutely self-seeking—that was not, in fact, deliberately designed to loot the rest of us to his gain?¹³

To paraphrase, one might well ask: How often do industrialists and unionists go to Washington to lobby for anything *but* special-interest subsidies—at the expense of the taxpayers or of their competitors? How often does "collaboration" between government and business *not* end up in a conspiracy either to give the business collaborators a government-mandated competitive advantage over their rivals or to loot the treasury? If Thurow and other industrial policy advocates know of an example, they have yet to offer it.

Drunk With Power

A third example of a "model" of industrial policy "success," according to Thurow, is the federal government's Bonneville Power Administration (BPA). Like the Reconstruction Finance Corporation, the transcontinental railroads, and farm programs, there are clearly defined beneficiaries of the Bonneville Power Administration. But the issue is not whether any beneficiaries can be found. Rather, it is whether power generation in the Northwest—Bonneville's main priority—would be better served by alternative institutional arrangements, such as unsubsidized, private power provision. Also, what is the social return to the taxpayers' "investment" in subsidized power in the Pacific Northwest?

Bonneville and other public power "authorities" represent parochial, pork-barrel politics at its worst. There is no good reason why taxpayers in Massachusetts, Florida, and Kansas should be taxed so that residents of Oregon and Washington State can enjoy subsidized electricity that is priced at less than half the national average.

In theory, the federal government's initial investment in BPA—and in other federally subsidized power producers—was to be repaid. But despite its claims of profitability, BPA has repaid only eight percent of its initial funding from the federal government; between 1970 and 1984 BPA made only one payment of \$126 million while borrowing an extra \$5.3 billion from the federal treasury.¹⁴

Far from being a model of success, the Bonneville Power Administration is primarily responsible for the largest default in the history of municipal finance—the Washington Public Power Supply System (WPPSS), or “Whoops” for short. It was Bonneville that initially persuaded 23 government-owned electric utilities to form WPPSS in the late 1950s. WPPSS was a government agency formed to carry out Bonneville’s grandiose plans for nuclear power generation during the 1960s and ’70s. It sold billions of dollars in non-voter-approved revenue bonds to finance the venture. In theory, revenues earned by the projects financed by such bonds are to pay off the principal and interest to the bondholders. But WPPSS, as an off-budget government agency shielded from public scrutiny and direct voter control, was notoriously inefficient as it built its nuclear power plants with its eye on political patronage, not economic efficiency.

In 1982—just prior to WPPSS’ bankruptcy—*Fortune* reported that “A Nuclear Fiasco Shakes the Bond Market.”¹⁵ This “fiasco” culminated in WPPSS default on \$2.25 billion in debt in 1983. The lawsuits against the public utilities, which were coaxed by Bonneville into forming WPPSS, were not settled until late 1992, a decade later.

The source of the WPPSS fiasco was industrial policy, or political management of industry. When Bonneville announced its plans, local politicians were quite enthusiastic, for many of them were offered seats on the WPPSS board of directors. Such seats were ideal places from which to award lucrative construction contracts to political supporters.

Construction companies and unions were equally enthusiastic, but investment bankers were perhaps the most enthusiastic supporters of all. In the autumn of 1981, Merrill Lynch underwrote \$750 million in WPPSS bonds and earned a \$22.5 million commission—the largest in the firm’s history.¹⁶

With all this political support, WPPSS undertook to build five nuclear power plants simultaneously. Eager to spread the patron-

age contracts as widely as possible, the WPPSS board utilized as many as 65 general contractors per job site. Commonwealth Edison, a low-cost private producer of nuclear power plants, generally used about three general contractors. Bureaucratic ineptitude led to long delays and inflated construction costs. Each construction site was littered with as many as 50 cranes. Similar construction projects by private companies typically used about 10 cranes. A report by the Washington State Senate Energy and Utilities Committee in 1982 concluded that costs had escalated 1,200 percent above initial estimates as construction was delayed by five years or longer.¹⁷

Bonneville was stuck with a large part of the tab for these cost overruns and had to pass the costs on to all of its customers, who suffered an 88 percent rate hike in 1980 and an additional 50 percent increase in 1981.¹⁸ Angered by these rate increases, the voters of the Northwest pressed for voter approval of future bond issues for WPPSS. Bonneville’s response was to argue against the voters in court that such an exercise of democracy supposedly “violates both federal and state constitutions” and “interferes with Congressional policy regarding establishment of a reliable, stable power system in the Pacific Northwest.”¹⁹

WPPSS is now defunct, having defaulted on over \$2 billion in outstanding debt. Four of the five partially completed nuclear power plants were dismantled. All of this was widely publicized for years during the early 1980s, which makes it all the more incredible that someone supposedly as astute as Thurow would use the Bonneville Power Administration—the source of the WPPSS fiasco—as an ideal model of industrial policy for America.

A High-Tech Pork Barrel

The latest cause of America’s central planners is to bureaucratize the high technology industries with a governmental “plan.” But the federal government’s record in the area of high technology indus-

trial policies is abysmal. The *Wall Street Journal* recently characterized the policy of government subsidies for high technology industries as "a 40-year history of commercial-technology projects turning into pork barrel embarrassments. . . ."²⁰

In a 1991 Brookings Institution study, *The Technology Pork Barrel*, Linda R. Cohen and Roger C. Noll concluded that of the major federally subsidized commercial R&D programs they studied, all but one—NASA's development of commercial satellites—were "almost unqualified failures."²¹ It is debatable, moreover, whether even NASA's satellites are successes when one considers the opportunity cost—the value of alternative uses of those resources.

Because of WPPSS-like cost overruns, driven by the political patronage and bureaucratic bungling that is inherent in all government programs, the supersonic transport and Clinch River Breeder Reactor "were killed before they had produced any benefits." The Clinch River Breeder Reactor's cost overruns were so extensive and diverted so many dollars from the government's R&D budget that it "probably retarded overall technological progress." The space shuttle "costs too much and flies too infrequently," Cohen and Noll concluded, and the Synthetic Fuels Corporation spent billions on "pilot and demonstration facilities that failed."²²

The story of the ill-fated Clinch River Breeder Reactor typifies government's industrial policies involving high technology. Cohen and Noll describe the project as "the quintessential example of a technological turkey by the time it was mercifully put to rest in 1983." Power demand was grossly exaggerated for political reasons, while costs were underestimated dramatically (where have we heard that before?). Like WPPSS and other industrial policy pork-barrel projects, the political benefits of patronage contracts "proved decisive in keeping the program going [long] after it was a clear mistake," costing the taxpayers millions.²³

According to Cohen and Noll's statistical analysis of the determinants of Congres-

sional votes for maintaining the Clinch River Breeder Reactor project, Congressmen tended to vote for the project if they were members of the Public Works Committee, Joint Committee on Atomic Energy, or the Subcommittee of Fossil and Nuclear Energy Research, all of which were able to grant construction contracts (i.e., dish out the pork). Also found to be a statistically significant determinant of votes in favor of continuing the project was the preponderance of "contracts for Clinch River-related work to the legislator's district."²⁴

Based on their study of the history of the government's high technology industrial policies, Cohen and Noll concluded that the failure of virtually all such policies is inherent. "The principal conclusion [of the book] is that American political institutions introduce predictable, systematic biases into R&D programs so that, on balance, government projects will be susceptible to performance underruns and cost overruns."²⁵

Proposals for a high-tech industrial policy all seem to ignore the fact that the private sector has already developed an amazingly efficient organization of information that is widely accessible through such products as computerized versions of the *Encyclopedia Britannica* and the *Oxford English Dictionary*, Prodigy, Compuserve, and a growing number of similar products and services that are sure to become increasingly inexpensive, as is always the case in such a competitive marketplace. The federal bureaucracy's intervention into this dynamic, efficient, and growing industry would be the kiss of death. Congressional micro-management could only retard America's information technology industries. The best the government can do in this regard is to eliminate government-created barriers to competition, such as allowing telephone companies to enter the fiber optics cable markets. Thus far, politically influential cable television companies have persuaded their friends in Congress to keep the phone companies out of information services markets. This policy illustrates why less, not more, government intervention would be the best industrial policy.

Industrial Policy Means Protectionism

Some proponents of industrial policy claim to be in favor of free trade and against protectionism. This is an extremely naive viewpoint, however, because industrial policy inevitably leads to protectionism of one kind or another.

When President Bush traveled to Japan with auto industry executives in 1991, the executives didn't go there to lobby for free trade; they wanted the President to pressure the Japanese to reduce imports into the United States. Although he may not have realized it, George Bush did the American public a great service when he vomited (in view of television cameras) in the lap of the Japanese Prime Minister, abruptly ending an "unsuccessful" trip to Japan. If the trip had been a "success," as defined by the participants in the trip, Americans would now be paying more for automobiles and other products produced by the protectionists who accompanied the President and who conducted themselves like unwelcome guests who had crashed a wedding, embarrassing their industry and their country.

Before Bill Clinton was even sworn in as President, the same auto executives issued a memorandum requesting that the new administration sharply restrict the importation of minivans from abroad, despite the fact that the "Big Three" U.S. automakers account for about 90 percent of minivan sales. The result of lower import quotas, of course, would be higher prices to consumers.

The entire history of so-called collaboration between government and business is a history of protectionist pleading. For decades the Interstate Commerce Commission operated as a government-sponsored cartel for the benefit of the trucking and railroad industries and their unions. These regulated industries were able to charge monopoly prices, enforced by the federal government, in return for political support—in cash and in kind—from the industries and their unions.

The Civil Aeronautics Board operated a similar cartel arrangement for the airline industry. Research has also shown that the

Federal Deposit Insurance Corporation restricted entry into the banking industry for decades, thereby propping up bank profits at the expense of consumers. Federal deposit insurance is the result of a "collaborative" effort by bankers and the government to socialize the risk, but not the rewards, of operating the banking system. The taxpayers are the suckers when it comes to bank bailouts, but they never share in any of the profits.

Collaboration between government and business in the agriculture industry has created a giant agricultural cartel, whereby the U.S. Department of Agriculture pays farmers *not* to grow food as a way of restricting the supply and increasing the price of food—exactly what a private cartel would want to do.

In most cities, the local governments grant a single cable television company a monopoly franchise. Monopoly prices are charged, and the government shares in the "loot" by taxing a portion of the monopoly profits. Millions of dollars are typically spent by cable companies to bribe—implicitly and explicitly, legally and illegally—city politicians into granting their company the monopoly franchise. The list of examples of how industrial policy constitutes a conspiracy by business and government *against* the public is almost endless.

Conclusions

Former Senator William Proxmire is right: An inherent feature of all interventionist industrial policies is that government money will go "where the political power is," regardless of economic considerations. Most industrial policy advocates seem to recognize this political fact of life, but then ignore it when making their policy proposals. Perhaps they believe that, once in power, their superior intellects will enable them to convince the career politicians to carry out the grandiose plans of the industrial policy advocates. If this is what the industrial policy advocates believe, then they are hopelessly naive.

The very image of a group of "planners" standing around a "situation room" in the

White House with an "industrial map" of the United States, trying to determine where to intervene, is simply ludicrous. Choosing when and where to intervene would be guided by politics, not economics. Because of the nature of politics, such intervention inevitably funnels subsidies to incumbent firms which makes it more difficult for newer, more entrepreneurial businesses to become established. Then, because governmental controls always accompany subsidies, the controls render the subsidy-receiving firms less competitive. This usually leads to requests for even more corporate welfare, and the cycle repeats itself. As history has shown, an interventionist industrial policy—properly labeled as neo-mercantilism—is a recipe for economic stagnation and decline. □

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21. Linda R. Cohen and Roger C. Noll, *The Technology Pork Barrel* (Washington, D.C.: Brookings Institution, 1991), p. 365.
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Blue Eagles and Déjà Vu

If the proponents of central planning came right out and said they wanted to create an economic police state, their cause would never get off the ground. So, they resort to "doublespeak," as Mario Pei so aptly called it, the usual camouflage for the ultimate use of force against the individual. Ludwig von Mises summed it up when he wrote: "All this talk: the state should do this or that ultimately means: the police should force consumers to behave otherwise than they would behave spontaneously. In such proposals as: let us raise farm prices, let us raise wage rates, let us lower profits . . . the *us* ultimately refers to the police. Yet, the authors of these projects protest that they are planning for freedom and industrial democracy."

Perhaps the oldest lesson of history is that an assault on one aspect of freedom is an attack on the whole, as the framers of the Constitution were well aware. To think that the bell that tolls for economic freedom does not toll for academic freedom or for freedom of the press is a delusion, and a dangerous one. . . .

All current proposals for a managed economy rest on an underestimation of the intelligence of the American people. They assume that you and I are just not smart enough to decide how to spend the money we earn.

—WALTER WRISTON, *The Freeman*, September 1975

IDEAS
ON
LIBERTY



NATIONAL SERVICE: UTOPIAS REVISITED

by Doug Bandow

In his State of the Union speech President Clinton proposed more than just higher taxes and more spending. He also promised to make his vision of national service a reality. It seems the President wants the state to guide the young into "appropriate" pursuits.

National service has long been a favorite utopian scheme. Eight decades ago William James wrote of the need for a "moral equivalent of war," in which all young men would be required to work for the community. He argued that "the martial virtues, although originally gained by the race through war, are absolute and permanent human goods," and that national service provided a method for instilling those same values in peacetime. "Our gilded youths would be drafted off," he wrote, "to get the childishness knocked out of them, and to come back into society with healthier sympathies and soberer ideas." Anachronistic though his vision may seem today, his rhetoric has become the touchstone for national service advocates: In succeeding decades a host of philosophers, policy analysts, and politicians proffered their own proposals for either voluntary or mandatory national service. And some of these initiatives have been turned into law: military conscription, the Civilian Conservation Corps, the Peace Corps, and ACTION, for instance.

Five years ago the Democratic Leader-

ship Council (DLC), to which Governor Bill Clinton belonged, advocated a Citizens Corps of 800,000 or more young people to clean up parks and handle police paperwork. The system would be run by a Corporation for National Service, which would set the level of benefits for participants and offer an educational/housing voucher. Underlying the proposal was an assumption of mass moral decadence that had to be rectified by the federal government. We live in a "prevailing climate of moral indolence," lamented the DLC, where "such venerable civic virtues as duty and self-sacrifice and compassion toward one's less fortunate neighbors are seldom invoked."

Candidate Clinton was too interested in being elected to criticize the voters in those terms, so he used more positive rhetoric to propose allowing perhaps 250,000 or so people to work off their student loans through approved government service. His initiative, he explained, would allow everyone who wanted to go to school to do so, while having them give something back to the community. Superficially, at least, it sounds like a win-win proposition. In practice, however, it would pour billions of dollars into make-work jobs while reinforcing the entitlement mentality that pervades our society.

What Is National Service?

National service has always generated strong approval in opinion polls, largely

Mr. Bandow is a Contributing Editor to The Freeman.

because it means different things to different people. The concept of "service" to the nation seems difficult to fault, and everyone imagines that the service will be provided in the manner that they prefer. Thus, a century ago Edward Bellamy used his novel *Looking Backward* to propose drafting an industrial army of both men and women for life; in 1910 William James urged conscription of young men into the most unpleasant of work, such as construction, fishing, and steel-making. The so-called preparedness movement pressed for mandatory military training and service before the onset of World War I. Radical Randolph Bourne later proposed forcing young men and women to provide two years of service before the age of 20. Universal military training received wide endorsement after World War II, and Congress reimposed military conscription after only a one-year interregnum. Defense Secretary Robert McNamara advocated tying civilian service to the draft in the early 1960s. Sociologist Margaret Mead advocated a universal program that "would replace for girls, even more than for boys, marriage as the route away from the parental home."

Since then the proposals have come fast and furious. Don Eberly of the National Service Secretariat has spent years pressing for a service program, while carefully sidestepping the question of whether it should be mandatory. Charles Moskos of Northwestern University pushed a civilian adjunct to the draft before the creation of the All-Volunteer Force in 1973 and most recently has presented a detailed voluntary program. Moskos nevertheless retains his preference for compulsion, admitting that "if I could have a magic wand I would be for a compulsory system." (Also mandatory, though in a different way, is the service requirement for high school graduation now imposed by the state of Maryland and roughly 200 local school jurisdictions.) Dozens of bills were proposed in the 1980s to create commissions, hand out grants, re-establish the Civilian Conservation Corps and Works Progress Administration, generate other new service agencies, and pay

part-time volunteers. Most serious was the Democratic Leadership Council's initiative, which Congress turned into an omnibus grant program, along with the Commission on National and Community Service. The issue had largely died until 1992, when the Los Angeles riots caused observers ranging from the late tennis great Arthur Ashe to Bush campaign aide James Pinkerton to press for different forms of national service. More important, candidate Clinton began inserting it into his stump speeches.

Clinton's Scheme

According to President Clinton, "you could bet your bottom dollar" that his program would "make it possible for every person in this country who wants to, to go to college." He proposed, as one of his top five priorities, creating the National Service Trust Fund. All young people, irrespective of their parents' income, could borrow for their education; they would repay their loans either through federal withholding from future wages or by "serving their communities for one or two years doing work their country needs." After the election budget realities forced him to scale back his initiative to a maximum of 150,000 participants annually, under the aegis of a new Corporation for National Service.

There is nothing compulsory about the Clinton proposal, but coercion could follow later. Enthusiasts of a mandatory, universal system, like Republican Senator John McCain of Arizona, see voluntary programs as a helpful first step, and would undoubtedly press for making them involuntary once national service became the law of the land, especially if "too few" children of privilege and wealth joined.

Service is obviously a good thing, which is why so many people feel warm and fuzzy when politicians propose "national service." The question, however, is service to whom? Government programs ultimately assume that citizens are responsible not to each other, but to the state. The proposals suggest that as a price for being born in the

United States one "owes" a year or two of one's life to Washington. Mandatory universal schemes put private lives at the disposal of the government, but most of the voluntary programs, too, imply a unity of society and state, with work for the latter being equated with service to the former.

Americans have worked in their communities since the nation's founding, and opportunities for similar service today abound. Some 80 million people, roughly one-third of the population, now participate in some volunteer activities. Businesses, churches, and schools have taken the lead in helping to organize their members' efforts. In a cover story *Newsweek* reported that "many of the old stereotypes are gone. Forget the garden club: Today working women are more likely than housewives to give time to good works, and many organizations are creating night and weekend programs for the busy schedules of dual-paycheck couples. Men, too, are volunteering almost as often as women."

Much more could be done, of course. But it would be better for government officials to lead by example rather than to concoct multi-billion dollar schemes to encourage what is already occurring. True compassion is going to be taught from the grassroots on up, not from Washington on down. The underlying assumption of the Clinton program—that there is a debilitating dearth of service that can be remedied only through yet another raid on the taxpayers—is simply false.

A second bias held by national service advocates is that "public" service is inherently better than private service. Yet what makes shelving books in a library more laudable or valuable than stocking shelves in a bookstore? A host of private sector jobs provides enormous public benefits—consider health-care professionals, medical and scientific researchers, business entrepreneurs and inventors, and artists. Working in a government-approved "service" job neither entitles one to be morally smug nor means one is producing more of value than the average worker in the private workplace.

Entitlement Mentality

Still, national service proponents rightly point to the problem of an entitlement mentality, the idea that, for instance, students have a right to a taxpayer-paid education. Why should middle-class young people be able to force poor taxpayers to put them through school? The solution, however, is not to say that students are entitled to do so as long as they work for the government for a year or two, but to eliminate the undeserved subsidy. People simply do not have a "right" to a university education, and especially a professional degree, at taxpayer expense.

Program advocates respond with shock. Education, they argue, will be increasingly important in an increasingly technological age. True enough: The greatest divergence in incomes in the 1980s reflected the gulf between those with and without college degrees. That increased earning potential primarily benefits the student himself, however, and the likely lifetime gain of \$640,000 should allow him to borrow privately. The interest rate may be higher than with today's federal guarantees, but that hardly seems unfair given the added earnings of the student.

Nevertheless, Senator Chris Dodd, an advocate of the Clinton program, contends that even middle-class families can ill afford to send their kids to college. That's now accepted as a truism, but it is not obviously correct. More than three-quarters of the best students currently go on to higher education. Qualified students unable to get a college education because of finances are few. Policymakers need to acknowledge that not everyone needs a university degree to find fulfillment in life. Some young people are not academically oriented or interested; others have found more satisfying ways to spend their lives. The federal government shouldn't be pushing them to go to school.

Anyway, the fact that higher education, especially at elite private universities, strains many family budgets is hardly surprising, since the dramatic increase in federal educational aid has helped fuel a rapid

rise in tuition. Further flooding the educational system with money is likely to benefit administrators as much as students. The point is, if there's more money available for schools to collect, they will do so.

Moreover, it is because of free-spending legislators that government now takes roughly half of national income, making it difficult for families to afford higher education. Politicians worried about middle-class taxpayers should therefore cut special-interest spending, not hike costs by several billion dollars, and perhaps tens of billions of dollars, through a national service program. In short, while the jump in federal educational assistance in the 1970s undoubtedly helped more students attend college, there is no reason to assume both that the majority of these marginal attendees benefited more than the cost of their education and that they could not have afforded school had tuitions not been artificially inflated and their families' incomes been so sharply and unnecessarily reduced by taxes.

Opportunity Costs

Paying young people generous compensation for national service—they will receive tuition relief *plus* salary and health-care benefits to paint "darkened buildings," as suggested by the President, or do police paperwork, proposed as part of the DLC's program, or perform other "service"—entails forgoing whatever else could be done with that money. Moreover, it entails forgoing whatever else those young people could do. "Public service" has a nice ring to it, but there is no reason to believe, *a priori*, that a dollar going to national service will yield more benefits than an additional dollar spent on medical research, technological innovation, or any number of other private and public purposes. Indeed, the Clinton program would delay the entry of hundreds of thousands of people into the workforce every year, an economic impact that the President and his advisers appear not to have calculated. Yet the relative value of labor may rise in coming years as the population ages. As a result, the opportunity

cost of diverting young people into extraneous educational pursuits and dubious social projects could rise sharply over time.

Another potentially important opportunity cost is diverting top quality men and women from the military. The end of the Cold War has sharply cut recruiting needs, but it has also reduced some of the allure of volunteering as well as the perceived national need. As a result, by summer 1992 the Army, which typically has a more difficult recruiting task than the other services, was about ten percent behind in signing up recruits for 1993. The military has even seen recruiting fall off in such traditional strongholds as northern Florida and other parts of the South. Yet various programs of educational benefits have always been an important vehicle for attracting college-capable youth into the military. Providing similar benefits for civilian service may hinder recruiting for what remains the most fundamental form of national service—defending the nation. The result, again, would be higher costs: economic, as more money would have to be spent to attract quality people; military, as the armed forces might become less capable; and moral, since military service would lose its preferred status, warranted by the uniqueness of the duties involved.

Still, there are undoubtedly many worthwhile tasks nationwide that people could do. The problem in many cases, however, is that government effectively bars private provision of such services. Minimum wage laws effectively forbid the hiring of dedicated but unskilled people and inhibit rehabilitation programs, like that run by the Salvation Army; restrictions on para-transit operations limit private transportation for the disabled. Licensing, zoning, and other unnecessary and often nonsensical regulations increase the price of day care. Similar sorts of restrictions harm private voluntarism as well. Health regulations prevent restaurants in Los Angeles and elsewhere from donating food to the hungry, for instance. In short, in many cases important needs are unmet precisely because of perverse government policy.

To the extent that serious problems re-

main, narrowly targeted responses are most likely to be effective. That is, it would be better to find a way to attract several thousand people to help care for the terminally ill than to lump that task with teaching, painting buildings, and a dozen other jobs to be solved by a force of hundreds of thousands. Talk of millions of "unmet social needs" is meaningless.

The Clinton program would simply assign people, people whose motivation would as likely to be working off a school debt as "serving." In fact, the government risks subverting the volunteer spirit by paying loan recipients too much. The DLC suggested that its program promoted sacrifice, yet University of Rochester economist Walter Oi estimated that the total compensation—salary, health care benefits, and un-taxed educational/housing voucher—for "serving" was the equivalent of \$17,500 annually *after taxes*, well above the mean earnings for high school graduates. The Clinton administration is equally generous, offering a tax-free educational voucher of \$5,000 annually, plus nearly \$9,000 in minimum wage compensation, along with health care and other benefits. As a result, students will see national service as a financially remunerative job option, not a unique opportunity to help the community.

Like the mythical Sirens, national service retains its allure. Argues Roger Landrum of Youth Service America, "Clinton has a shot at mobilizing the idealism and energy of a very significant number of young people, as Roosevelt did with the Civilian Conservation Corps and John F. Kennedy did with the Peace Corps." Alas, President Clinton's scheme would end up no bargain. It would

likely create a nightmarish bureaucracy and increase an already out-of-control deficit. National service would also reinforce today's misbegotten entitlement mentality while siphoning tens of thousands of young people out of productive private labor and into make-work projects. Finally, if the program inflated tuition levels as has student aid in the past, it probably wouldn't even benefit many participants, but would fund college administrators more than students.

What we need instead is a renewed commitment to individual service. People, in concert with one another, need to help meet the many serious social problems that beset us. There is a role for government: Officials should commit themselves to a strategy of "first, do no harm." We need to eliminate public programs that discourage personal independence and self-responsibility, disrupt and destroy communities and families, and hinder the attempts of people and groups to respond to problems around them. But the private activism that follows needs neither oversight nor subsidy from Big Brother. Some of the voluntarism can be part-time and some full-time; some can take place within the family, some within churches, and some within civic and community groups. Some may occur through non-profit and some also through profit-making ventures. The point is, there is no predetermined definition of service, pattern of appropriate involvement, set of "needs" to be met or tasks to be fulfilled. America's strength is its combination of humanitarian impulses, private association, and diversity. National service is an idea whose time will never come. We need service, not "national" service. □

National Service: An Old Idea

And he said, "This will be the behavior of the king who will reign over you: He will take your sons and appoint them for his own chariots and to be his horsemen, and some will run before his chariots.

"He will appoint captains over his thousands and captains over his fifties, will set some to plow his ground and reap his harvest, and some to make his weapons of war and equipment for his chariots.

"He will take your daughters to be perfumers, cooks, and bakers."

—I Samuel 8:11-13

PAYING BUREAUCRACIES TO RUN AMOK

by Gary North

Before retiring from the U.S. Senate, William Proxmire used to give a monthly presentation, The Golden Fleece Award, to a spending project he thought wasteful and unproductive. The recipients of the award always defended their research as important to the national interest, compounding their silliness.

When I wrote a newsletter for Congressman Ron Paul in 1976, I imitated Proxmire. I read the regular reports issued by various government agencies to see what kind of projects they were funding. I was looking for obvious waste. Government research projects were always the most ludicrous.

After each issue of the newsletter appeared, people would write some variation of the following letter: "Normally, I agree with everything you say, but in your recent newsletter you attacked the government's support of _____. In my view, this is a very important project, well worth the money." Almost without exception, the individual who sent the letter was employed either by the government agency that gave away the money or the institution that received it.

No matter how silly, no matter how wasteful, there is always someone inside a bureaucracy who will defend a particular government expenditure. While Proxmire received a lot of publicity for his Golden Fleece Award, and while the column in

Congressman Paul's newsletter amused thousands of readers, the bureaucratic nonsense has not only continued, it has escalated. The federal government is today running a \$300 billion annual deficit—\$4,000 per American family—and still the nonsense continues. The bureaucracy has clearly run amok.

To Destroy Our Freedom

It is not just that the bureaucrats are spending tax money on things which the voters would never voluntarily choose to buy with their own money. The bureaucrats are also preventing the American people from spending their own money on the things they do want to buy. No one has monitored this more effectively and amusingly than James Bovard.

In his book *The Fair Trade Fraud*, Bovard offers us hundreds of pages of horror stories: examples of special-interest-motivated laws that favor (in the short run) American producers at the expense of American consumers. Bovard notes: "Foreign nations are routinely prohibited from sending more sweaters to the U.S. each year than are sold by a single New York department store. The U.S. government decreed on April 8, 1988, that Sri Lanka could ship only one dozen men's and boys' cotton coats to the U.S. in the following seven months" (p. 39).

I ask: Why even bother granting to a foreign nation's producers the right to ex-

Dr. North is president of The Institute for Christian Economics in Tyler, Texas.

port duty-free to the U.S. a grand total of a dozen coats? Why require the U.S. Customs Service and the foreign government's bureaucrats to go to the expense of identifying those initial dozen coats to be allowed in, "no strings attached"? I would estimate that the total cost of administering the red tape for the exemption is much greater than the value of several dozen imported Sri Lankan cotton coats.

Bovard writes: "The U.S. now imposes over 3,000 separate quotas on clothing and textile imports from forty nations" (p. 36). It should be obvious that the bureaucrats have a vested interest in maintaining as many regulations as will provide continuing employment for bureaucrats. Those U.S. producers who oppose imports have an operational alliance with the entrenched bureaucracies that administer the restrictions.

It is the utter absurdity—from the point of view of U.S. national interests—of the specific restraints that Bovard discusses that makes his book a powerful indictment of tariffs and quotas. By no stretch of the imagination is the national interest of the United States defended by the 1989 decision of U.S. Customs to prohibit the importation of a shipment of 30,000 pairs of tennis shoes from Indonesia because the shoe boxes contained an extra pair of shoelaces. A Customs Service agent decided that the extra pair of shoelaces required a separate quota license, and his decision established a precedent for the Customs Service. Customs declared that the import of the extra pair of shoelaces would have been legal if: (1) the extra pair had been laced into the shoes; and (2) the extra pair had been color-coordinated with the shoes.

The only good thing we can say about this system is that it is relatively small: The average tariff is now around 5 percent. But tariffs range as high as 458 percent on some items; there are 8,000 different taxes; and they cost each family \$1,200 a year.

In the Name of Fairness

This seemingly ethics-based word, "fair," is used to justify political policies

that are in fact manifestly unfair to American consumers and foreign producers. How fair would it be for the government to place restrictions on exporters? Would voters regard this as fair? Yet this is what the result of "fair trade" always must be. A restriction on imports of some items is inevitably a restriction on exports of other items. A barrier *in* is always a barrier *out*. If foreign producers cannot earn dollars from selling their goods to Americans, then foreign consumers cannot buy these same dollars from those foreign producers in order to import goods from America.

Unfortunately, this two-way effect of trade barriers is not understood by most people, especially the politicians who vote for import restrictions. These same politicians routinely vote for government export subsidies. They would rarely vote for export restrictions except in cases where national defense is involved, yet import restrictions are inevitably export restrictions. A practice that almost everyone in a nation would regard as economically foolish and morally unfair is the inevitable result of policies defended as fair.

The problem is, the bureaucracies that promote these policies almost never revoke them voluntarily. No matter how silly the policies become, no matter how oppressive, there is always a bureaucrat and a special-interest group that will defend it. Unless exposed publicly as an obvious moral outrage, or worse (from the bureaucrats' point of view), as utterly ridiculous, and unless a politician makes its eradication part of his personal agenda, the policy will continue. Time and time again, the enforcement of the policy becomes more absurd and more unfair over time. The question is: Why?

A Question of Incentives

People rarely will admit publicly they have been foolish, immoral, or both. Without the threat of negative sanctions for wrongdoing and positive sanctions for righteousness, all men's actions tend to drift toward the foolishness of their own hearts. Christians call this original sin. Economists

call this the pursuit of short-term self-interest. The fact is, the tendency exists.

In 1944 Ludwig von Mises wrote a little book titled *Bureaucracy*. In it, he discussed two forms of management: profit management and bureaucratic management. Profit management is driven by the pursuit of profit and the avoidance of loss. The seller of goods and services must meet the demands of consumers or else be forced out of business. The system is driven by sanctions in the hands of consumers: money.

Bureaucratic management is also driven by money. But this money is not in the hands of consumers. It is in the hands of those who act through the state. The state is not a voluntary agency facing open competition in a free market. The state is a legal monopoly of violence. So, the rule of bureaucratic management cannot be "profit and loss." A bureaucracy is governed by two things: its budget and its rule book.

The state taxes people, and the money must be spent according to "the book." The primary goal of the bureaucrat is two-fold: (1) to persuade the politicians to increase the budget; and (2) to persuade the politicians to turn the book-writing task over to the bureaucracies that enforce the rules. They have been successful in both respects over the last eight decades.

The more rules, the larger the budget necessary to enforce them. So, as time goes on, the "iron law of bureaucracy"—not Mises' words—if left unrestrained by outside pressures, will lead to a growing number of rules. The "book" gets larger, more complex, and more incoherent. The general rules for spending this money are written by the politicians, but the rules governing the implementation of the politicians' general rules are written by the bureaucrats themselves. Each year, the *Federal Register* publishes over 30,000 pages of fine-print rules. This is in addition to all the rules that have already been published, and many that have never been published (executive emergency orders).

In the United States, disputes over the enforcement of these rules are initially set-

tled by "administrative law judges," who are in fact employees of the very bureaucracy which enforces the rules. Should we expect impartial judgment from such people? Or should we expect them to do what they are paid to do: to expand the authority of the bureaucracies that employ them?

Mises warned that bureaucratic management must be limited to the enforcement of generally known rules. If bureaucrats can make the rules so complex that only they or skilled lawyers can understand them, the state will become arbitrary and tyrannical as it expands its power. This is why Mises warned that the state must be drastically limited to enforcing laws against violence and fraud. If it extends its reign to the area of "positive sanctions"—trying to make men good in addition to restraining evil acts—it will inevitably become arbitrary and tyrannical.

The Solution: Personal Responsibility

Mises put the blame where it belongs: on the front doorstep of the voters. "The plain citizens are mistaken in complaining that the bureaucrats have arrogated powers; they themselves and their mandatories have abandoned their sovereignty" (p. 120). By electing men to office who have voted to expand the powers of the state, voters have thereby expanded the power of bureaucracies over them. The consumers' sovereignty over what is produced is thwarted by the bureaucrats' rule books and the taxes necessary to finance the enforcement of these rules.

The answer is the reduction of taxation and the elimination of thousands of volumes of official rules. We need smaller government budgets and fewer laws. In their capacity as voters, consumers must restrain themselves in their quest for legislated perfection on earth—a perfection promised by those who seek to tax and regulate those societies whose voters are unwise enough and immoral enough to listen to such promises. □

ARE AMERICANS OVERFED?

James E. McClure and T. Norman Van Cott

Americans comprise five percent of the world's population, yet consume 25 percent of world's economic pie. Left-leaning pundits, professors, and preachers delight in juxtaposing these statistics to "prove" that Americans are materialistic, wasteful, and overfed.

Many Americans accept this argument. What they overlook is that aside from international theft or philanthropy, any nation's consumption standard is limited to what it produces. A nation consumes its production directly, and indirectly by trading with other nations. In this light, it follows that Americans consume 25 percent of the world economic pie because they produce at least 25 percent of the pie!

Could it be that Americans are "over-worked"? After all, five percent of the people producing 25 percent of the output hardly seems an equitable apportionment of the work load. Maybe our self-styled humanitarians should praise Americans, rather than scorn them.

The Luck of the Draw?

Even when conceding that Americans produce what they consume, these profes-

sional social critics cling to the notion of "overfed" Americans by arguing that America's claim on the pie is illegitimate. A popular argument is that a lucky draw of natural resources is the source of America's high living standards. This undermines Americans' claim by asserting that they are not responsible for the pie's size.

A quick glance at a world atlas exposes the lucky draw contention as sophistry. For example, Hong Kong, Japan, the Netherlands, South Korea, and Taiwan succeeded without such draws. Indeed, Hong Kong's draw didn't even include fresh water! At the same time, Brazil, China, all of sub-Saharan Africa (except for South Africa), and the countries of the former Soviet Union are economically backward despite vast resource endowments.

It cannot be denied that the United States was blessed with abundant resources. The Brazils of the world make it clear, however, that the key is that Americans have been good stewards of their blessing. Rather than resource endowments, the inheritance that really matters is that bequeathed by the Founding Fathers: an economic system that encourages this good stewardship. In any event, to condemn U.S. living standards because of generous resource endowments is analogous to denigrating the achievements of Nobel Laureates because they have high IQ's.

Drs. Van Cott and McClure are professors of economics at Ball State University in Muncie, Indiana.

Economic Imperialism?

At other times, these so-called humanitarians argue that America owes its abundance to foreign investment by "imperialistic" U.S. multinational corporations. These corporations supposedly sap the strength of their host nations by repatriating profits to the United States. Moreover, because the profits allegedly caused the destruction of the host nations' local industries, environment, and cultural heritage, the nations are victims of a corporate double whammy.

A sense of *déjà vu* attaches to this contention. It is essentially the same argument used to assail colonialism. History belies the notion that a colonial heritage predestines national penury—the United States, Canada, and Australia were once colonies. Likewise, nations that were never colonies languish economically—Tibet, Liberia, Afghanistan, and Ethiopia are examples.

The evidence attesting to foreign investment's *positive* role in economic development is overwhelming. Except for England, no nation has developed without the active involvement of foreign investors in its economy. The post-World War II experience of Pacific Rim countries—South Korea, Singapore, Taiwan, Hong Kong—is one recent example of the power of this engine of economic growth.

At the other end of the spectrum lies the former Soviet Union and its economic pup-

pets: They actively discouraged foreign investment and their underfed people are still paying the price.

Are Americans, Then, Overworked?

If economic abundance is assured neither by the luck of the draw nor by economic imperialism, must we conclude that Americans are overworked? No, the sources of a nation's output of goods and services go beyond its *physical* inputs. Americans *appear* to be overworked only because the Founding Fathers bequeathed them an economic system that magnifies the results of their work effort.

More than 200 years ago Adam Smith saw that actions of self-interested people can, unbeknownst to them, enhance their nation's economic pie. In Smith's famous words, people can be "led by an invisible hand to promote an end which was no part of [their] intention." Open markets and secure property rights are the hand's lifeblood.

These institutions give entrepreneurs an incentive to seek out consumers who value their products highly. At the same time, consumers have an incentive to discover producers who provide goods at least cost. The invisible hand is as much an input in production processes as are land, labor, and capital. Thus, Americans are more productive because the invisible hand is their ever-present helping hand. □

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THE BENEFITS OF VARIATION

by James Rolph Edwards

As a professor of economics who wishes to convince his students of the importance of economic insights without overselling economic knowledge, I have always taught my students that even the best economic models have only *heuristic* value and cannot be expected to explain everything. The proper question to ask about such models is whether we understand more by having the model than we would without it. I argue that this is particularly true of the theory of perfect competition, with its numerous small firms, homogeneous product, and perfect information. It is, at best, a useful analytic device for illustrating, in a simple form, certain things about business decision-making and how economic profits and losses motivate firms to shift resources from lower to higher valued employments. However, there are many important features of the real world that are abstracted from the model. Austrian economists are correct in asserting that real states of market structure and competition which deviate from the model are not necessarily inferior, and may even be superior in crucial respects.

Assuming away such differences is sometimes useful for allowing clear focus on the relationships between a single pair of variables, or the effect of a single change, such as in demand or supply. The real world,

however, is not only characterized by variation, but benefits enormously from it. Such variation cannot be ignored if economic and other social phenomena are to be understood.

Consider, for example, the fact that minerals and metals are not spread evenly throughout the earth's crust, but are distributed randomly with concentrated lodes in some places, and almost none in others. Clearly, if such resources were spread evenly in the earth's crust it would not have been economically feasible to mine any of them with primitive technologies. Note also, that in the history of economic thought, this uneven distribution of such resources has been one of the prime factors in the theory of comparative advantage used to explain trade flows.

Analogous to resource variability is climate, an under-represented factor in explanations of comparative advantage and trade. How often do we stop to think of the great variety of products that exists as a consequence of the variety of weather and temperature (in combination with soils, minerals, and other factors) around the world? Many types of plants and animals, which flourish in climates a standard deviation or so away from the mean, would not exist if the mean temperature prevailed everywhere. The variety of our consumption options would be greatly restricted as a consequence.

Now consider human variability. The two

James Rolph Edwards is assistant professor of economics at Northern Montana College.

most crucial dimensions here are in abilities and tastes. Most of us go through life lamenting our apparently low endowment in one or more human abilities, even though we usually have *above* average endowments in some others. Consider certain obvious consequences that would follow from everyone having the *same* endowment, equal to the present *mean value*, of every human quality. For one thing, there would have been no Galileo and no Copernicus to advance knowledge of the universe, and no Edison to create practical products. The basic point here is crucial: *The mean intellect is inadequate to make the kinds of discoveries such individuals make*, but, amazingly, *it is adequate to understand their basics once they are discovered and taught*. The existence of individuals with extreme intellectual abilities therefore results in enormous advance in the knowledge of the general public. The absence of variation in such abilities would leave humanity in a perpetual primitive state, at best.

Variation in human abilities also has pervasive economic and social effects. It is another prime source of the comparative advantage that results in specialization, division of labor, and exchange which so greatly increase the aggregate production, wealth, and income of society's members. Associated differences in knowledge and attitudes give rise to civilized discourse and communication, the arts, and so on, without which life would be much less interesting. In addition, each of us can gain pleasure from the mere observation of abilities we lack being applied. Who among ordinary mortals does not thrill at the sight of Michael Jordan leaping from near the foul line and sailing through an army of defenders to make a left-handed behind the back layup? In the absence of variation in human abilities there would be no Einsteins, Rembrandts, or Michael Jordans, and I suspect we would all die of boredom posthaste.

Such variation also gives rise, however, to differential attainment within all fields of human endeavor, hence differential acquisition of wealth and income. Some resentment results on the part of those who

regard themselves as disadvantaged in terms of their endowment of human (or other) resources, or whose accomplishments seem meager. It is easy to argue, however, that under at least some institutional arrangements, specifically private property, limited government, and free markets, there are large social benefits that result from differential attainment of assets and wealth.

Consider, for example, differential skills and attainment in business activities. One of the abstractions of the theory of perfect competition already mentioned is that it assumes away differences in managerial and entrepreneurial ability among the decision makers of the firms in the market. It is often noted that in many real world markets the bulk of assets are concentrated in the hands of a relatively few firms, who also do the bulk of sales. But given the natural variation in managerial ability and entrepreneurial talent, and the great scarcity of extreme abilities of these types, how could things be otherwise?

With a normal statistical distribution of such abilities among corporate decision makers within an industry, there will be a distribution of costs among the firms, with some being high, a few very low, and most in between. But the highest cost firms will lose market share and leave the industry, while the low cost firms will gain market share, increasing both sales and assets. In essence, assets will be transferred within the industry from inefficient, high cost firms to efficient, low cost firms. That means not only that assets and sales in the industry will tend to concentrate in the low cost firms, which will make larger profits than others in the industry, but that *industry total output (and hence market supply) will be larger and price will be lower than would be the case under an even distribution of managerial and entrepreneurial talent at the mean value*. The consuming public will be enriched. This common, real world market condition is not inferior to the state described by the perfectly competitive model, but superior to it, from the crucial perspective of human well-being.

Human well-being is also enhanced by product differentiation, in which firms in the same industry produce different versions of the same product. This is another variability phenomenon that is omitted from the theory of perfect competition. Product differentiation has at least three sources. The first is that the perfect information assumption of the model does not hold in the real world. Information is an economic good which is costly to obtain, not a free good. In particular, the optimal specification of esthetic and utilitarian properties of the product, which best satisfies consumer taste, is *not* known *a priori* or by divine revelation. It must be *discovered*, and the only available method is to try various specifications on the market. Hence firms do so, each competing to be first to find what consumers regard as the best form of the product.

The second source of product variation is that consumer tastes vary. If consumer preferences were all the same, product variation would be transitory at best. Early in an industry's history firms might try different specifications, but unsuccessful versions would be eliminated from the market, suc-

cessful versions would be copied, and product variants would tend to converge over time on the single optimal specification. In reality, however, human tastes often vary widely with regard to the desirable characteristics of a particular product, hence *there frequently is no single optimal product specification*. Different versions, satisfying various subsets of the product's consumers, will continually be produced. The third factor generating product variation is that consumer tastes change over time, so that experimentation in product specification is an ongoing necessity.

In this process as in others, participants in the market are continually responding to relative price changes and profit and loss signals in ways that shift scarce resources from the lower to the higher valued of diverse human ends. Here as in so many other ways, humans benefit from variation. The world really would *not* be a nicer place if all fast food chains produced identical hamburgers, and all cars were the same, as some economists seem to claim. As the Frenchman said, more wisely than he knew, "Vive la différence!" □

CHEAP CAPITALISM

by A. M. Rogers

The watchword of the '90s is said to be "frugality." But during hard economic times, it is especially important to keep in mind that frugality under capitalism means something very different from frugality under other economic systems.

To illustrate, meet a friend of mine named Max. Max considers himself the personifi-

cation of frugality. He takes great pride in just how much he can do without and, whenever we talk, he always slips in some tidbit on this aspect of his character. For example, he has told me how he puts cardboard in his shoes rather than purchase new ones. I know he owns just two pairs of pants and an equal number of shirts. He runs his shower water a trickle at a time and he keeps his heat down low even in the winter. In fact, he keeps his heat down so

A. M. Rogers is an attorney and physicist living in Florida.

low at his New York house that the gas company sent out men to replace his gas meter. The gas company just couldn't believe the meter was measuring the gas correctly, despite Max's proud assurances it was.

Though Max may look and act like a pauper, he happens to be a man of professional standing who earns a decent income. Unlike Max, most people in his income bracket are flaunting their wealth by purchasing boats, fancy automobiles, designer clothing and, at the least, brand new shoes.

Yet Max understands that, just as it is capitalism that allows these other people to display their success with a dazzling array of material goods, it is also capitalism that gives his reverse snobbery meaning.

When Max tells his tales of meager living, he is fully aware of who is listening to him. He knows that part of the enjoyment he gets in telling his stories depends on the background of his audience. He wants to leave his listeners wondering and more than a little astonished. The one question he wants his stories to raise is "why?" Why does Max choose to live this way? Aha! A choice is involved.

Imagine, instead, that Max is living in a country such as Russia or one of its neighboring republics. Or imagine that Max lives in a Third World country. In these countries, an average professional, such as Max, may not have the choice to go out and buy new shoes when he needs them. The average person, in these countries, may not be able to take a shower even if it is just a trickle.

In materially and economically impoverished countries, a person cannot decide when, where, and how to be frugal. In these countries, the average person has no choice

of what not to spend his money on. If there is no food, he does not eat. Or, if there is bread but no meat, he eats bread. Or, if there are shoes but no coats, he has shoes but not a coat. It is frugality by poverty in these countries, not frugality by choice.

It is true, however, that unlike many people these days, Max is unique in that he is not forced to be as frugal as he is. But he is like the people who are forced to be frugal in that he has, as they have, a choice over what items and objects on which to economize.

For example, Max lives in a nice house. Though it's not a mansion, it is a house inconsistent with someone who has cardboard in his shoes. Ironically, to Max, a nice house was just too essential to cut back on. He sees food, clothing, shoes, and heat as luxuries. Consequently, it is on these that he economizes. And even poor people can occasionally splurge on the things they enjoy most whether it be, for example, a movie or clothes or cigarettes.

Being frugal under capitalism is a matter of individual choice and, for this reason, it is something different from being frugal under other economic systems. In America, most persons still can decide what they want to do without or on what they want to economize. Each person's strategy or tactics in being frugal will be unique to him. It will depend on what he values, what he is indifferent to, what he can most afford and myriad other individual factors.

Choosing what not to spend your money on requires that there be material goods around on which you can possibly spend your money. Freedom of frugality requires the enormous wealth of choices afforded by the capitalist system. Ironically, it takes a rich capitalist country to give cheapness real meaning. □

FOR YOUR OWN GOOD

by Roger Clites

During the last half century more and more experts have appointed themselves to make us do what is good for us or, as they usually say, "It is for your own good." Sometimes they try to force us to bend to their will by exerting social pressure. Frequently they do it by obtaining the power of government to make us do their bidding.

The paradoxical thing about their goals is that not all of them are bad for us. If these experts did not foster a rebelliousness in us by insisting on bending us to their will, we might even do some of the things they feel we must be compelled to do.

A simple and personal example is the matter of exercise. When I was growing up, children often walked many miles a day to organize a baseball game on a vacant lot or at a city park. Then they would exercise for hours on end—throwing, swinging a bat, running between the bases and in the field, and playing all sorts of games. They did not do this because it was good for them. The exercise was a by-product of doing what was fun.

As time passed adults got involved. The involvement took at least two different forms. One was organizing children's fun into Little Leagues, into which adults insinuated themselves. Often they purchased expensive equipment for the players. They took away the spontaneity by grouping the kids into teams determined by the adults, by setting up leagues, and by scheduling when

the children could have fun, i.e., when they could play. Often they would make the play still more like work by scheduling practice sessions to which they would *require* the kids to come if they were to be allowed to "play." By then what was taking place was no longer children's play, nor was it fun for them. Adults planned it, supervised it, and, worst of all, got so emotionally involved in it that some of the kids actually began to hate to engage in this form of play.

Next came school intervention in children's recreational exercise. One favorite childhood activity was shooting basketballs at hoops nailed to a tree in the backyard. I used to play basketball in my early teens. About that time government school officials decided that students needed *physical education*, as well as the Three R's and other mental types of education.

At the small high school which I attended in the ninth and tenth grades the physical education teacher was also the basketball coach. He did not change the pattern of play unduly from what we had done on our own. The class usually had about 15 students, so he would allow us to choose up three teams of five players, put two teams on the floor, and set a given number of baskets as "game." Then the side that had been "sitting it out" would take on the winners. The only other way that the coach would intrude would be to change the odds, if necessary, such as shirts would win with five baskets and skins with three.

This intrusion was minor, but it was "the nose of the camel under the tent." Soon

Professor Clites teaches at Tusculum College.

word came down from central authority that we could not just play. We had to engage in organized exercise in the form of calisthenics. We were to do, in unison, situps, pullups, knee bends, and various other things that were supposed to be good for us. (It has since been determined that such exercises are not always good. Knee bends in particular sometimes cause considerable damage.) Most students began to hate physical education and, as a by-product, exercise in general.

I moved to a larger high school in another state for eleventh and twelfth grades. There every physical education period was organized, and we had a teacher who acted like a drill sergeant. Besides calisthenics we

were forced to box, wrestle, and engage in several other activities whether they interested us or not. We were *never* allowed to do what we wanted.

Fifty years have passed since I voluntarily shagged flies and shot baskets for enjoyment. Those youthful activities provided far more exercise than what modern fitness authorities recommend, and no one had to force me to do it. That is the point. Dislike of coercion by parents, schools, or other government agencies is the reason that children today do not get what some expert has determined to be adequate exercise.

We didn't need a President's Council to tell us how much to exercise. Nature told us. □

PARENTS AND GOVERNMENT

by Duncan A. Simpson

Not too long ago there was an exposé on one of the network "tabloid" news programs. It had a profound effect on everyone I knew who had seen it. The exposé concerned the deplorable level of day-care treatment at a number of private day-care centers in a suburban area near our home.

Needless to say, this program prompted the local media to strike the chord. The network program had showed scenes of day-care workers hitting infants who cried too much and of the workers failing to provide any form of hygiene. It inflamed those who rely on day care so that both

parents can work, and who inevitably carry guilt in their briefcase for leaving their infants with strangers. Saddest was the response of the parents of one of the abused children when the network showed them tapes of their own child being struck. The pain resounded. The media carried the torch, interviewing the parents and operators and stirring everyone's ire.

The local constabulary and politicos responded in Pavlovian fashion, threatening the prosecution of these day-care owners, the enactment of strict licensing laws, and the enrollment of a veritable army of inspectors to remedy the situation and to prevent additional abuses in the future. National "leaders" also responded with Congres-

sional hearings, solemn declarations about the need for federal oversight of the rearing of children, and so on. The response portends further intrusion into the personal lives and obligations we all owe to our family and children.

The controversy struck particularly close to home because we have a three-year-old. We envisioned ourselves as that couple viewing the beating of their own child. It also prompted heated discussion about the role of government and caused me to re-evaluate my own role as a public servant.

At the time of the brouhaha, I was serving as a federal prosecutor, one who ostensibly was a guardian of the rights of these citizens. I began to question my role as one who upholds the public image of a "great provider" government. It became obvious to me the children had suffered because of the total abdication of the role of the parents in supervising the affairs of their own families and in failing to hold every service provider to the highest standards, especially when it involves the lives of children.

What, I asked myself, had caused this widespread abdication? I responded to comments from other parents, who universally said that stricter licensing rules were needed for day-care centers, by chastising them and saying that what we actually need is unrestricted day-care providers. I was deemed a lunatic and mocked by even our most libertarian friends. Their response clarified the problem in my mind. It was not merely the politicians' response that should be deplored, but, more importantly, the indifference of parents.

When government intrudes into the personal lives of its citizenry to establish guidelines, regulations, and licensing requirements, it removes from the individual the awareness that he must be a cautious consumer of goods and services. This governmental intrusion establishes an "acceptable" level of service or quality that too many rely on to their detriment or the detriment of their families. It has the interesting effect of spilling over into areas that are not regulated. For example, the essen-

tially unregulated day-care market thrived, even for those who abused children, because the parents did not effectively scrutinize and inspect the day-care centers. Rather than dropping the baby off at 8:00 a.m. and picking him up at 5:00 p.m., the parents need to take an active role in making unannounced visits, and to encourage the participation of other parents in the affairs of the day-care center. That is the consumer vigilance that would assure that only the most pristine and proper day-care operators would remain in business.

I then asked several of my friends how often they dropped in, uninvited, at their child's day-care center, or spoke at length with the owner or interviewed other parents about the service provided. Few said that they had ever pursued any action when they saw that their child appeared happy at the center. It was a sad commentary on the dependence of government standards, even where none exist.

When we finally put our child into a school each day, we interviewed many other parents; my wife spent almost an entire day observing our son's interaction with the teachers at the school; we reviewed each teacher's credentials; and I checked on the sanitary conditions very carefully. Most importantly, I was encouraged by the owners' open invitation to drop by unannounced, and by their sponsorship of a very active parents' association. I have, on at least six occasions in the three months he has been in that school, dropped in uninvited, and have spoken with the owner each time. I am never satisfied that my son is getting the same care he would at home, but he is getting a structured learning that we could not provide. He also thrives on playing with his gleeful little classmates.

Since the television programs aired, no state legislation or city ordinances of any import have been passed to regulate the day-care centers. The foment has subsided. All I can hope is that the parents of some children learned a lesson and have become wiser purchasers of care for their children, their most precious possession. □

RAISING TAXES STIFLES INITIATIVE—INVISIBLY

by Richard W. Stevens

A business talk show host recently stated that even with higher taxes on everybody, the American spirit of initiative and hard work would survive. Nobody, he said, would stop working hard just because his taxes went up. A true story shows how that host was wrong.

Thirteen-year-old William Johnson was having trouble in his algebra class. William would fail algebra if he did not quickly improve his quiz grades. Mr. and Mrs. Johnson had exhausted themselves trying to help William with his studies. The Johnson family decided to get some outside help from a tutor. They answered a local newspaper advertisement offering tutors.

Across town, Sarah Thomas was a young mother with a mathematics degree and two small children. Her husband was making a good living, and Sarah was able to stay home with the kids. Still, Sarah wanted to keep her academic skills sharp and make a few extra dollars. Sarah answered a local newspaper advertisement seeking math tutors.

The source of these newspaper advertisements was a small local business, run by another homemaker with ambition. The business connects tutors with those needing them, and charges a small fee. When Sarah learned that she could make \$15 per hour helping someone, and doing something she

loved, she was enthusiastic. Soon Sarah was tutoring William in algebra.

After a few weeks, Sarah started wondering if it was worth it. Her husband's income put the Thomases in the 31 percent marginal federal tax bracket. State taxes took 4 percent, too. So for every \$15 Sarah made, she could keep \$9.75. This wasn't bad, but then she learned she had to pay self-employment tax (Social Security) of about 15 percent. Now she was left with \$7.50.

Of course, when she worked Sarah had to pay a babysitter to watch the kids. If Sarah were to tutor one hour, she would have to pay the babysitter for two hours, since round trip travel time to William's house was about 30 minutes. Sarah paid the babysitter \$3 per hour, for a total of \$6. The 10 travel miles, at approximately 20 cents per mile, cost Sarah another \$2. Her out-of-pocket expenses now amounted to \$8 for a one-hour session.

Now Sarah incurs \$8 in expenses against \$7.50 in after-tax income. Sarah is eligible, however, for the 20 percent child care tax credit of \$1.20. Her net after-tax income for the tutoring session: 70 cents.

When Congress raised taxes on the "rich," the Thomas family was hit with a 36 percent marginal tax rate. The new taxes cost Sarah another 75 cents. She was now losing \$.05 per hour of teaching time, and making nothing for the 30-minute commute time and preparation time.

Mr. Stevens is an attorney in Alexandria, Virginia.

Sarah Thomas could not afford to lose money tutoring, and sadly had to quit. The small business that connected tutors to pupils lost a tutor. William lost the services of smart, patient Sarah. And the government lost \$7.50 in tax revenue.

In the market economy, free exchanges of goods and services for money result in mutual benefits for those concerned. The parties to such exchanges become wealthier because they trade what they value less for what they value more. Each gets more of what they consider valuable. Efficiency in production and distribution of goods and services in a system of free exchange leads to increased wealth for all the participants.

When Sarah tutored William, Sarah gained \$15 (less expenses) and some psychic reward, and William gained knowledge and better grades. It was a fair bargain.

Individually, the tax rates by themselves had not looked too fearsome: 31 percent federal, 4 percent state, and 15 percent Social Security. And a 5 percent increase in marginal rates seemed modest enough.

But even before the \$8 in expenses, Sarah's income per session dropped from \$7.50 to \$6.75 with the tax increase. She would be making only 75 cents more in the transaction than her babysitter.

Sarah could not simply pass the taxes through to William's parents by increasing her fees. The Johnsons were really stretch-

ing their budget to afford a tutor at all, and could not pay more to cover Sarah's taxes. By imposing the increased tax, the government ended the transactions which had enriched William, Sarah, the tutoring agency, and the babysitter.

After stifling the Sarah-William transaction, the government provided nothing to compensate for the loss. Nobody was better off. The government didn't even get the expected tax revenue. Since nobody counts what cannot be seen, nobody can accurately tally how many times people *stop* doing things to create wealth because of taxation.

True, the Johnsons will spend or invest the \$15 on other things in the economy, and will gain some benefits. But the Johnsons will have lost the benefit they wanted most for that \$15. Instead of tutoring services, perhaps they will get pizza or shares in a mutual fund. It will be like sitting down to a prime rib dinner, only to have government require you to accept several cheese sandwiches substituted for the same price. In real human terms, the Johnsons lost the full benefit of the \$15 by being forced to take their second choice.

High taxes abort economic productivity. Raising marginal income taxes, even if only on the "wealthy," must result in lost wealth with no compensating gain. And yes, big government tax policies can and will invisibly snuff out the American spirit of individual initiative and hard work. □

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by Leonard E. Read

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THE ROUTE TO 9066

by Wilma J. Moore

Recently I had occasion to fill out an application form on behalf of my grandson for admission to a private elementary school. At the bottom of the application was a statement that the school ". . . is committed to achieving a well-balanced student population which reflects the ethnic and cultural diversity of San Francisco." At first glance this statement appears to be simply a rephrasing of the traditional policy of granting equal opportunity regardless of race, color, or creed. However, a second reading of those words reveals a very subtle shift from a policy of colorblindness to a policy of intense color awareness.

In spite of the dubious rationality of attempting to duplicate a city's racial percentages in the classroom, there are probably a number of good reasons that "ethnic diversity" could be considered a reasonable goal. One might be that a knowledge and understanding of cultures created by people of different races and different geographic locations is part of the definition of a liberal education. Another might be the wish to right past wrongs against many racial groups whose children were denied the advantages of a private education for no other reason than that they were born to non-Anglo-Saxon Protestant parents. A third reason might be to contribute to the elimination of racial prejudice and thus to the enhancement of world peace. There may even be

other noble objectives that at the moment do not occur to me.

It would seem that, if one wished to offset a predominantly WASP student body, ensure cultural enrichment, and create an environment where racial tolerance could flower, one would actively seek those families in the community who had just immigrated to this country and who carried with them the language and customs of a different culture. One might also expect these schools to try to enroll children from households in which the members spoke a foreign language or in which the members still adhered to foreign religious or social customs though they had been in this country for some time. However, it seems that satisfying their positive goals does not require "progressive" schools to follow either of these positive criteria. Instead it means satisfying a negative one, i.e., that a prospective student *not* have an English-speaking white Anglo-Saxon Protestant lineage.

If their family names are Stroganov, Patel, or Yamamoto the children must have an enriching cultural heritage to bring to the school to balance the culture shared by the Smiths, Browns, and Joneses who are already on the student roster. Never mind that the Stroganovs have never spoken a word of Russian and never eat borscht, that the Patel child's mother is a corporate lawyer who wouldn't be caught dead in a sari and that no one in the family likes curry, and that the parents and children in the Yamamoto clan have never been to Japan, attend a Meth-

Mrs. Moore is a free-lance writer from Santa Rosa, California.

odist church every Sunday, listen mostly to rock and roll music, and number hamburgers and French fries among their favorite foods. Never mind these or any of the other features that characterize their lives as American and not as some other culture. They fulfill the criterion as representatives of Eastern European, Indian, and Japanese culture, so they'll balance the student population nicely.

The disturbing premise that underlies this policy is that ethnic origin carries with it certain irrevocable cultural characteristics. If one is born of Russian parents one must somehow carry with him the genes of a Russian persona which inevitably produces Russian "culture." Because a child has Indian parents or an Indian ancestor, he or she will therefore be the carrier of a distinctive Indian essence. If one has an Oriental name and facial features, then this person also has an "Oriental perspective" on life.

When I hear arguments in favor of an admissions policy like that of the school my grandson might attend, I hear the voices of reasonable people in a different historical context whose noble objectives justified something that turned out to be just the opposite. As uncomfortable as it may be for the morally righteous of today to contemplate, an admissions policy that uses race or ethnic origin as a criterion has as its foundation the premise that justified Executive Order 9066, which set in motion the relocation of anyone of Japanese descent from the West Coast in 1942.

In California just after Pearl Harbor, one argument repeated *ad nauseam* by radio commentators, in letters to the editor, in newspaper editorials, and in magazine articles was that blood ties were stronger than political or social ones, and that no matter how long people of Japanese descent had lived in this country, no matter how many generations their families might count on this soil, they were still Japanese, and a part of them would forever owe allegiance to the Emperor of Japan. Since they were not "one of us," their loyalty was to be questioned, their civil liberties revoked, their property confiscated, their movements restricted,

and ultimately their lives uprooted and their persons segregated—all because, by an accident of fate, they had the racial lineage of a political enemy.

The premise that children born of a certain racial caste are destined to share exclusive cultural preferences, personality characteristics, or a certain perspective on life is patently false. Yet thoughtful people everywhere seem unwittingly to be advocating an academic admissions criterion based squarely on that premise. The heterogeneity which characterized the life of persons of Japanese descent in the United States at the beginning of 1942 was ignored, submerged beneath a mountain of misconceptions regarding some ineluctable relationship between race and culture, between ethnic origin and values, between family origin and behavior.

Ethnic diversity on this level is a superficial goal resting on a fallacious premise which is ominous in its implications. Today the premise of inborn cultural characteristics may net a relatively benign result. Tomorrow it may reap a harvest of misery and shame. Today it may produce an ethnically balanced and peacefully interacting student body. Tomorrow it may erupt in a movement toward racial exclusion. Today this policy intends to educate children in the ways of enlightened civilization which liberates the individual from any stigma attached to a racial or cultural stereotype. Tomorrow, this same policy might educate children in the ways of collectivist tribal barbarity by identifying each other by that very stereotype.

The advocates of Executive Order 9066 justified their actions just as the advocates of "ethnic and cultural diversity" do today. In the process they became blind to their own racism and hardened to the results of the despotism generated by their erroneous assumptions. Let's hope modern school administrators and parents will recognize their own faulty logic in time before the color-blind society they so fervently hope to engineer becomes one that makes the blood lines of one's ancestors more important than the working of one's mind. □

FROM MARX TO MISES: A REVIEW ESSAY

by Peter J. Boettke

In 1989 we collectively sat and watched the defining ideology of the twentieth century die an inglorious death. Our newspapers and magazines were full of stories. The nightly network news reported almost daily on some radical change or another.

From May to June we watched as the crowds swelled in Tiananmen Square demanding democratic change. Americans' hearts filled with pride as the students chose the words of Patrick Henry, "Give me liberty, or give me death," to represent their aspirations. Our proud hearts turned anxious as the tanks rolled in to crush the democratic movement.

Political liberalization movements had been crushed before by Communist governments, notably Hungary in 1956 and Czechoslovakia in 1968. But never before had the act of oppression been simultaneously broadcast throughout the world. Any remaining legitimacy of Communism died as the lone unarmed protester faced off the tanks in Tiananmen. Democratic revolutions swept across Eastern and Central Europe in the last half of 1989. Solidarity in Poland and the Civic Forum in Czechoslovakia rose to power and replaced Commu-

nist governments. The Berlin Wall fell and Germany would be reunited. And in December, the tyrant Ceausescu was executed in Romania.

The economic, political, and moral implications of 1989 have not yet been fully understood. It is true that most intellectuals would admit that the revolutions of 1989 represented a move toward market economics and political democracy—the twin forces in classic European liberalism. Political democracy, though, can take several forms—parliamentary or presidential, proportional representation or two-party system, and so forth. The simple act of voting does not guarantee a liberal order. Many of the difficulties in the post-1989 era of reform, in fact, arise precisely in the area of finding the political infrastructure for the effective operation of democracy.

The shape and scope of politics possesses profound implications for the operation of the market. Not all market economies are equal. It seems that most observers are willing to admit that a market economy is better than a centrally planned one, but the reasons why and to what extent the market must be insulated from politics remain mysteries to most. This is unfortunate. For while economics is not everything there is in the world, it nevertheless constitutes a major component of our existence. Whether we are free men or slaves, whether we are rich or poor, whether we can develop as a people

Peter J. Boettke, a 1992–1993 National Fellow at the Hoover Institution, Stanford University, teaches economics at New York University. Dr. Boettke would like to thank Dr. Robert Hessen for his thoughtful criticisms of an earlier draft of this essay.

or stagnate, these are fundamentally economic questions.

The pure understanding of the nature and significance of economic forces and the implications for the social order are essential to learning how our world works. Ludwig von Mises was one of the most prolific and important contributors to our understanding of economic life. Mises' original contributions to economic science included monetary theory, capital theory, methodology, and market structure theory. But what truly distinguished Mises was his contribution to the study of comparative economic systems. His identification of the crucial flaw in socialist proposals was the most important economic discovery of the twentieth century.

Mises argued that rational economic calculation required that participants rely on the shorthand of market signals to make decisions concerning the alternative use of scarce resources. The exchange ratios established on the market, for example, provided important signals to economic actors so that they could make investment decisions that would coordinate their plans with those of others in the marketplace and lead to an efficient allocation of resources. Socialism, however, promised to eliminate the structural basis of the market economy—private property in the means of production. Without private property in the means of production, Mises argued, there could be no market for the means of production. Without a market for the means of production, there could be no relative money prices for the means of production. Without money prices reflecting the relative scarcities of capital goods, rational calculation of alternative uses of scarce resources could not be accomplished. Socialism, Mises pointed out, was logically flawed and could not achieve the humanitarian ends claimed with the socialist means employed. Economic chaos and political oppression would be the unintended results of trying to implement socialism.

Mises' argument concerning the problem of economic calculation under socialism has gone through a strange history. When intro-

duced in his 1920 article and later developed further in his 1922 book, *Socialism*, this argument became the subject of debate and discussion among economists and social theorists throughout the world. Socialist thinkers, in particular, sought answers to the problems Mises raised. Even Nikolai Bukharin, the architect of Soviet Russia's policies of "War Communism" and the "New Economic Policy" in the 1920s referred to Mises as the "most learned critic of Communism."

In the late 1930s, however, the Polish socialist-economist Oskar Lange was perceived by many professional economists and intellectuals to have developed a successful answer to Mises. Socialism could indeed replicate the efficiency claims of capitalism in theory. Moreover, given the real world problems of monopoly and the instability of business cycles, socialism could outperform capitalism in practice.

Mises' argument was supposedly demonstrated to lack the force it was once thought to have possessed. Instead, Mises' *Omnipotent Government* and F.A. Hayek's *The Road to Serfdom* were interpreted as retreats by their authors from their earlier argument concerning rational economic calculation to a political argument about totalitarianism.

From that time until the early 1980s, it became the received wisdom in academic and intellectual circles that Mises had been refuted by Lange. Socialist planners could indeed engage in rational economic calculation. And, with the appropriate democratic political institutions, the totalitarian argument could be subverted as well. Mises died in 1973, and everyone, except a handful of followers, expected his theories to die with him. Instead of dying, Mises' influence has steadily grown in the last 20 years.

Several articles and books appeared in the 1980s which challenged the standard interpretation on a theoretical level, most notably Don Lavoie's *Rivalry and Central Planning* (1985). Lavoie's comprehensive treatment of the socialist calculation debate established that Lange had not dealt with the challenge Mises had originally put forth.

Lange's version of neoclassical socialism was guilty of both a poor reading of the aspirations of Marxian socialism, and a poor understanding of the dynamic properties of a market economy. Events also seemed in Mises' favor. In the late 1970s China had chosen to pursue market liberalization to revive the stagnating Communist economy. Hungary encouraged market incentives within its state-run economy throughout the 1970s and 1980s. In Poland, the Solidarity labor union movement rose to challenge the legitimacy of the "workers' state" by pointing out that the Communist government did not benefit the proletariat. Even the Soviet Union announced economic liberalization plans under the leadership of Mikhail Gorbachev. When the revolutions of 1989 occurred and Communism collapsed throughout Eastern and Central Europe, even those who had earlier dismissed Mises' argument, like Robert Heilbroner, had to admit that "Mises was right."

But what exactly was Mises right about? To answer that question there simply is no better book than David Ramsay Steele's *From Marx to Mises: Post-Capitalist Society and the Challenge of Economic Calculation* (Open Court Publishers, 440 pages, \$17.95 paperback). Perhaps there is no substitute for the original, but books that deal with the debates between thinkers put arguments in a perspective which the original works cannot possibly accomplish.

Steele provides a deep appreciation and understanding of the challenge that Mises' economic argument presents for socialist theory. Not only is *From Marx to Mises* an excellent examination of Mises' thought, but Steele also provides a primer on Marx's thought, including some of the most modern developments, such as analytic Marxism. *From Marx to Mises* moves well beyond a technical book in economic and political theory, and possesses a legitimate claim as a major contribution to "Grand Theory" in the social sciences.

Many people despise the teachings of economics because it puts parameters on their utopias. Economic theory demonstrates the practical limits of demands for

social control over production and exchange. The challenge that economic calculation presents to socialist thinkers is that they are required to develop a method other than the price system which can serve the same function that calculation within the price system does. Economic calculation, despite its imperfections, affords market participants with a method by which to choose from all the technologically feasible projects those projects which are economical. In this way, scarce capital resources are allocated effectively, and the production plans of some are coordinated with the consumption demands of others through the price system. As Steele demonstrates, no workable solution to Mises' challenge has yet been formulated by socialist thinkers: neither labor unit calculation, nor administrative command, nor market socialism nor workers' self-management. Mises' challenge remains unmet: The socialist revolution has been defeated by mundane economics. Even the cover design of *From Marx to Mises* conveys this point with its portrayal of an abacus superimposed over a picture of revolutionary crowds—this picture, in itself, is worth the price of the book for those who come to understand its point.

But is Steele's book still important after 1989? Unfortunately, many academics, intellectuals, and politicians have come to believe that with the end of the Cold War Communism is dead and therefore the economic arguments against Communism and socialism are irrelevant. Nothing could be further from the truth.

First, many still do not understand the reason for the failure of the socialist model. Socialism, it is often asserted, failed because mankind was unable to live up to its worthy ideals. But, this gets the argument exactly backwards. Mankind did not fail to live up to socialism; socialism failed to live up to the moral and practical demands of mankind. Steele provides a great service by clarifying this point by separating the motivational question of economic incentives from the informational question of economic calculation (especially chapters 9 and 10). The problem was not simply a matter of

good intentions. Even if leaders and workers possess nothing but the best of intentions, the question remains as to how would they *know* what the best way to proceed should be? The monetary price system and the process of economic calculation provides the prerequisite incentives and information to market participants so they can formulate effective responses to these questions. Not only does the competitive economy mobilize existing information efficiently, it generates the discovery of new information that otherwise would have remained hidden. Socialism simply does not possess similar institutions and thus is structurally hampered.

Second, since the argument concerning the inherent weaknesses of socialism is little understood, modern attempts at developing a "feasible socialism" continue to flourish and influence the direction of policy throughout the world. At a strictly theoretical level, for example, Pranab Bardhan and John Roemer published an article in the *Journal of Economic Perspectives* (Summer 1992) proposing a resurrected model of market socialism. Bardhan and Roemer argue that what failed in 1989 was a social system characterized by (1) public ownership, (2) non-democratic politics, and (3) command administration of resource allocation. The model they propose would eliminate (2) and (3), but (1) remains intact.

There are many others besides Bardhan and Roemer. Alec Nove's *The Economics of Feasible Socialism* has been reissued. Moreover, Joseph Stiglitz has a forthcoming book through MIT Press entitled *Whither Socialism?* Stiglitz argues that the major question in the wake of 1989 is whether modern economics can serve the socialist moral ideals of the nineteenth century. Stiglitz answers in the affirmative. Stiglitz's recasting of the argument provides a new challenge to economists working in the Misesian tradition, and Steele's book provides many insights that should be incorporated into an effective response to proposals for a revised theory of the socialist economy.

Third, the former Communist governments are still involved in very difficult transitions from authoritarian political economies to social systems more amenable to economic and political freedom. Western advice during the transition has so far been neither consistent nor very good. Mises' argument concerning economic calculation, however, entails much more than a criticism of socialism. It also entails a statement of why market economies achieve whatever degree of success that they do. But Mises' argument remains little understood even as a criticism of socialism, let alone as a positive prescription for the transition.

What this lack of appreciation of the duality of the calculation argument demonstrates is that the positive propositions generated by Mises have not yet been fully accepted by the economics profession and the intellectual community at large, and, as a consequence, they are not influential on the political stage. Steele presents Mises' ideas to the economics profession and intellectual community in such a careful and thoughtful manner that it is sure to invite investigation, criticism, and attempted refutation by skeptics in an open dialogue among concerned readers. A small note of caution, however, is in order. Steele does make a few errors in interpretation to my mind with regard to (1) the philosophical weaknesses of Misesian apriorism, (2) Hayek's critique of scientism and the engineering mentality, and (3) the importance of Leon Walras' contributions to economic science. On all three counts I would side with orthodox Austrianism and against the arguments presented by Steele. Despite these quibbles, Steele's book represents a major contribution to the literature and should find a place on the bookshelf of all who care about a free society. Neither dogmatic in presentation, nor lacking in strong conviction concerning the strength of reason and evidence in the service of ideals, David Ramsay Steele's *From Marx to Mises* provides a strong antidote to the sickness that afflicts modern discussions over the politics and history of our times. □

COSTLY RETURNS

by John Chamberlain

Despite the reassurances of James L. Payne in his *Costly Returns: The Burden of the U.S. Tax System* (265 pages, \$14.95) that the IRS is not really out to get anybody, there is no way to dodge worry about the tax collector. The Institute for Contemporary Studies, Payne's publisher, may say that the Constitution has its guarantees against the seizure of bank accounts, salaries, houses, and cars without due process of law, but the guarantees are meaningless if you can't survive an audit. Good intentions won't save you from sudden changes in the tax code. Nor will they counter stupidity.

The IRS happens to be recruited from the lowest third of our law school graduates, which would seem to guarantee stupidity. The recruits are certainly not error proof. Congressman Christopher Shays, a Republican from Connecticut, upon listening to details about the error rate at a GAO hearing, said, "I am not used to hearings where I learn that 47 percent of all written response to taxpayers is incorrect, or that I learn that 36 percent of the non-computer kinds of responses, the personal contacts over the phone are incorrect. It just raises some questions in my mind that I haven't been able to sort out yet . . . if we can make such a colossal number of mistakes, how does that translate in the other things we haven't looked at? Here we are saying it is close to 50 percent . . . half of what we do are errors."

Payne estimates that Americans spend more than five billion hours annually on tax

compliance. It is theoretically voluntary, but if you take anybody's word for that you are crazy. If you choose freely not to pay taxes, jail awaits. Voluntary compliance automatically means less money for investment. The disincentive effect of a tax destroys jobs.

Payne has a suggested cure: Let the government pay an audited person for the time he spends being investigated. When, in a rough analogy, the government seizes land to build highways, it forces policy makers to recognize the true cost of highways and therefore discourages them from building as many as they otherwise would. This suggests that there wouldn't be so many audits if the tax collector's money were used to finance them.

Oliver Wendell Holmes once said he didn't mind paying taxes, for "they bought him civilization." Payne turns Holmes around. "Taxation," says Payne, "may have been a minor nuisance in Oliver Wendell Holmes' day, in 1904, long before the adoption of the graduated income tax. Now, grappling with a full-blown welfare state tax system we are left pondering the converse of Holmes' dictum."

Actually, Holmes was dead wrong. Taxes are the price we pay for being uncivilized. There is a violation of conscience involved in most tax payments. Taxes are no longer seen as funds needed for comprehensive rational purposes but as part of a system of rip-offs needed to pay for special interests.

"What is a tax?" Herbert Stein asked in *The Wall Street Journal*. "A tax is a finan-

cial burden levied by some citizens or residents of the country to provide benefits to others."

We have a "culture of taxes" that militates against tax repeals. At a Congressional Tax Administration hearing of a House Ways and Means Subcommittee, 17 officials for the IRS showed up to have their say, but there was only one representative from the American Bar Association. □

Visions Upon the Land: Man and Nature on the Western Range

by Karl Hess, Jr.

Washington: Island Press, 1992 • 278 pages
\$22.00

Reviewed by Jonathan H. Adler

Dayton Hyde wanted nothing more than to improve the quality of his land. A ranch owner in southwestern Oregon, Hyde believed that through careful stewardship he could promote wildlife conservation on his lands, as well as the adjacent lands owned by the federal government, while still benefiting from the grazing of cattle. Toward this end, he created Operation Stronghold, an association of private landowners dedicated to encouraging wildlife conservation.

Part of Hyde's plan was to use his grazing permits on nearby public lands for deer and elk, rather than for his cattle. Unfortunately, the federal government had a different idea. While Hyde was entitled to purchase grazing fees on public lands for cows, the Forest Service would not allow those permits to be used for other species. Hyde could graze cattle, or forfeit the right to those permits. That the land would be maintained and the Forest Service would receive the same revenue in either instance was immaterial. Hyde's idea was simply not part of the Forest Service's vision for its land.

Dayton Hyde's dilemma is a microcosm of the major problem facing public lands today: a massive, technocratic public lands bureaucracy that has little interest in en-

couraging either private stewardship or economic development. As public lands form the backbone of the Western range—spanning a half-billion acres—the effects of misguided federal policies reverberate throughout the western United States. Until this fundamental fact is changed, the situation is unlikely to improve. This is the message of Karl Hess, Jr.'s provocative *Visions Upon the Land: Man and Nature on the Western Range*, a book which attempts to reframe the entire debate surrounding public lands and provide for a definitive, if somewhat controversial, solution.

Those urging reform of public land management have traditionally fallen into one of two camps: those who believe the problem is with individual land users compelled by short-sighted self-interest to ignore ecological concerns, and those who believe the problem is one of bureaucratic institutions. While Hess acknowledges that both camps provide valuable insights, he feels both are slightly off the mark. For Hess, the problem, as well as its solution, is to be found in recognizing the role of "landscape visions"—"the perceptions and beliefs held by people of how the western range should look and be"—in shaping land policy. One must understand what landscape vision gave rise to the public lands bureaucracy, and the nature of the visions that have dominated it since.

For Hess, there have been three primary landscape visions over the course of American history. The first of these is the agrarian vision of Jeffersonian democracy. While Jefferson is rightfully regarded as the primary architect of America's liberal political order, he is also the father of America's public lands and held a landscape vision that, in the words of Henry Nash Smith, "government should be dedicated to the interests of the freehold farmer." This policy was pursued through the management of the western range—dividing it into homestead plots too small for grazing or subsistence farming in the arid west, which resulted in a western dependence upon lands still owned by the state. As Hess points out, "for all practical purposes, the making of

the tragedy of the commons was the official policy of the United States government."

The ecological failures wrought by the Jeffersonian vision gave rise to its replacement, the progressive landscape vision. This was "a vision of men and women assuming conscious and purposeful control over nature and directing its uses to the exclusive benefit of humankind." By these lights, scientific experts could mold the public lands and allow for their optimal utilization by mankind. Yet, as with all such visions of scientific management and social control, this vision similarly failed to protect the western range.

Due to its inherent shortcomings, the progressive vision was overtaken by that of environmentalism. This vision, committed to protecting the western lands as "hallowed ground," would become the least tolerant and most destructive of all, not only to human needs, but to the environment it sought to serve as well. Lands were no longer to be scientifically managed for man's benefit. Now they would be managed for the environment's sake alone.

The common thread underlying the history of public lands is the problem with a central landscape vision that is coercively imposed upon all lands and those who dwell within them. Notes Hess: "Visions of engineered landscapes and sacred places have deluded progressive and environmental thinkers into believing that nature can be mastered and set on a straight and narrow course as dictated by the will of the state." Although economic central planning has been a dismal failure, the far more difficult task of centrally planning an ecology is somehow believed to be possible. In the end, "government has elevated its role to that of the visionary state—a sovereign

entity empowered to make particular visions the official creed of government." Whereas America was founded on the ideal of allowing for a multiplicity of personal visions that compete in an open market, in the western range there would only be room for one, and it would be dictated from Washington, D.C.

Hess' solution is, as one might surmise, to remove public lands from the control of government, and return them to the American people. He calls it "democratization," though it is simply privatization under another name. By divesting the state of the responsibility of managing these lands, Hess seeks to establish "a market of landscape visions." Such a system will endow individuals with "the ability to seek landscapes that are intensely personal and that only nature can rule as being ecologically fit or not." Some may choose to ravage their own lands, but others, such as Dayton Hyde, will be free to engage in responsible stewardship as they see fit.

Whether Hess' plan for privatization—the distribution of shares to all American citizens that can be used for the purchase of public lands—is the best plan of action is certainly a matter for debate. Any attempts to privatize federal lands are sure to meet with strong political opposition. Nonetheless, the direction that must be taken remains clear: Government control of a half-billion acres of land cannot be allowed to continue. On this point, Hess demonstrates, both ecologist and classical liberal should agree. The next step is making it happen. □

Jonathan H. Adler is an environmental policy analyst at the Competitive Enterprise Institute in Washington, D.C.

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SEPTEMBER
1993
VOL. 43
NO. 9

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

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Senior Editor: Beth A. Hoffman

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Contributing

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$25.00 or more receive a subscription to *The Freeman*. Additional copies of single issues of *The Freeman* are \$2.00. For foreign delivery, a donation of \$40.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available on microfilm and CD-ROM from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. A computer diskette containing the articles from this month's issue is available from FEE for \$10.00; specify either 3½" or 5¼" format.

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PERSPECTIVE

Private Property

It is not the right of property which is protected, but the right to property. Property, *per se*, has no rights; but the individual, the man, has three great rights, equally sacred from arbitrary interference: the right to his life, the right to his liberty, the right to his property. . . . The three rights are so bound together as to be essentially one right. To give a man his life but deny him his liberty is to take from him all that makes his life worth living. To give him liberty but to take from him the property which is the fruit and badge of his liberty, is to still leave him a slave.

—JUSTICE GEORGE SUTHERLAND

Government Against Wildlife

Perversely, the government sometimes penalizes landowners for improving habitat. Dayton Hyde, who put 25 percent of his ranch into marshes for wildlife, initiated research on the sandhill crane and built a lake with three and a half miles of shoreline for wildlife. But he paid a price: "My lands have been zoned. I am being regulated for wetlands that weren't there before I created them. Like most of my neighbors I can save myself from financial disaster only by some creative land management, but the state legislature has cut out most of my options."

As founder of Operation Stronghold, an international organization of private landowners practicing conservation on their land, Hyde is serious about wildlife conservation. But his efforts rest on the cooperation of thousands of private landowners, who could go a lot further if government would refrain from imposing costly zoning restrictions. Hyde has found that some ranchers are reluctant to join. As one landowner put it: "Look, you don't understand. We would like to do our share for wildlife but we are afraid if we create something worthwhile the public will want what we have. It's just plain easier and a lot safer to sterilize the land." Because the willingness of the private sector to improve habitat or

create recreational opportunity depends on the incentives landowners face, we cannot expect a positive response from the private sector if landowners are penalized for improving habitat.

—TERRY L. ANDERSON

and DONALD R. LEAL

Free Market Environmentalism

Spotted Owl with Tarragon Pesto?

I have one question about that April 2 environmental teach-in in Portland with President Clinton: Why are those spotted owl couples entitled to 300 acres each? Candidate Clinton pledged to help "the ones who do the work and play by the rules," and I know a lot of humans like that and none of them has even one acre.

"The ones who do the work and play by the rules" are getting an average of \$4,500 added to each new house in higher lumber prices. The price of 2×4s is up 90 percent since November, in no small part because of the logging restrictions imposed by environmentalists.

John Hampton, president of Willamina Lumber Company, figures that the proposed millions of acres in set-asides for owl habitat will have each pair of spotted Owls sitting on \$95 million in timber.

On the top of these rising lumber prices, there's unemployment. The people in Oregon, Washington, and California stand to lose anywhere from 10,000 to 50,000 logging jobs, plus the secondary unemployment that will ripple out.

The bottom line, as I understand it, is that someone has to move, either the loggers or the owls. Neither can live with the other; both have their family roots deeply planted in the same "old growth" forests, and someone is going to end up losing his home. Just looking at that aspect, from an economist's focus on costs and benefits, it's clearly the owl couples who should hit the road since their homes are next to worthless.

And in terms of the actual costs of mov-

ing, loggers must hire expensive vans and help, whereas all the owls have to do is wake up when they hear the saws and fly over to some other trees. Isn't that why birds have wings, so they can fly? Many birds fly thousands of miles each year—some even do a roundtrip from Canada to Argentina every year without whining about it. But environmentalists whine because owls might have to move to "new growth" trees. So there they sit, even though they are costing millions of dollars in unnecessary housing costs, tens of thousands of lost jobs, and the closing of entire human towns.

It's time to tell the spotted owls to start playing survival of the fittest and move on and take their chances adapting to a new environment, just like most of the rest of us did. The Irish survived the potato famine by moving to New York City and the Cubans survived Castro's power grab by moving to Miami. Why should someone with wings be expected to do less?

—RALPH R. REILAND

Robert Morris College

Acid Rain

In 1980 the Environmental Protection Agency asserted that the average lake in the northeastern United States had been acidified a hundredfold in the last 40 years by acid rain. And the National Academy of Sciences claimed that acid rain would double the damage again by 1990.

But the 10-year National Acid Precipitation Assessment Program (NAPAP), conducted under the auspices of the EPA, has completely discredited these claims and shown them to be baseless. The \$500 million study found that:

- The average lake in the Adirondacks is no more acidic now than it was before the Industrial Revolution.
- There was no measurable change in the acidity of lakes over the preceding 10 years.
- Only 35,000 of the 200 million acres of U.S. lakes are too acidic to support sports fisheries—and most of this acidity is natural.

—Executive Alert

ENVIRONMENTALISM: THE TRIUMPH OF POLITICS

by Doug Bandow

There's no doubt that the environment makes for good politics. Eight of ten Americans call themselves environmentalists. Overwhelming majorities say that gasoline should be less polluting, cars should be more efficient, trash should be recycled, and lifestyles should be changed.

This increasing sensitivity is reflected in business' growing emphasis on environmental products. Such catalogues as *Real Goods*, *Seventh Generation*, and *Earth Care Paper* offer recycled paper, vegetable-based dishwashing liquid, battery chargers, and fluorescent light bulbs. Even many mainstream firms are labeling their products CFC-free, biodegradable, and environmentally friendly. While the environmental benefits of these activities are unclear, they apparently help sell products.

Increasing numbers of people are taking an interest in environmental issues in part in response to their own concerns and in part in response to social pressure—including from their children. The schools have launched what for a less politically correct goal would be called indoctrination programs. And the campaign seems to be working: *The New York Times* ran one story about parents who were relieved when their

children went off to camp so they could again use styrofoam cups and toss out used plastic.

The law is also playing a greater role in people's lives. An unaccountable bureaucracy in southern California, for instance, proposed banning use of lighter fluid for barbecues and prohibiting drive-in facilities. Federal agencies have essentially seized control of millions of acres of land arbitrarily designated as wetlands. And the Washington, D.C., suburb of Takoma Park employs what it euphemistically calls "recycling co-ordinators" to comb through people's trash and hand out tickets—with fines ranging up to \$500—for not properly sorting garbage.

In the abstract, greater attention to environmental matters would seem to be a positive trend. After all, no one wants to breath polluted air. No one wants to visit an Everglades that is dying or see Yellowstone's Old Faithful replaced by condominiums. And who could not be concerned about the possibility of a warming environment, threatening ozone holes, and the specter of acid rain?

The problem, however, is that the environment has become a hostage to politics. Many environmental activists want more than a clean environment. Their commitment to conservation and political action is religious, and their goals are often far-reaching: to transform what they consider to

Doug Bandow is a Contributing Editor of The Freeman and a Senior Fellow at the Cato Institute.

be a sick, greedy, and wasteful consumer society. As a result, many otherwise well-meaning people have proved quite willing to use state power to force potentially draconian social changes irrespective of numerous important alternative values, including freedom, health, and prosperity.

The real political divide is not between right and left, conservative and liberal, or Republican and Democrat. Rather, it is between market process and central planning, the free market and command and control by the government. Most politicians believe in government solutions. They may not be consistent in the specific ways they want the state to intervene, but they like government involvement. Although liberal enthusiasm for state action is best known, conservatives, too, often want government to rearrange environmental outcomes arbitrarily. There are no more fervent supporters of irrigation projects that deliver below-cost water to farmers, subsidies to promote logging on public lands, and cut-rate range fees on federal grazing land for ranchers than Republican legislators. Conservative western senators have fervently opposed selling federal lands.

Where Do We Stand?

Much of today's concern for new environmental restrictions comes from the perception that the sky is falling. In the view of Lester Brown of Worldwatch, for instance, we're in a "battle to save the earth's environmental support systems." He worries about global warming, growing populations, disappearing species, expanding deserts, depleting topsoil, and so on. We face "the wholesale collapse of ecosystems," he claims.

Yet somehow the world seems rather less bleak than he suggests. Between 1970 and 1986, for instance, the amount of particulates spewed into the air fell by 64 percent, carbon monoxide emissions dropped 38 percent, and releases of volatile organic compounds fell by 29 percent. Ocean dumping of industrial wastes was reduced 94 percent. There were 80 percent fewer cities without

adequate sewage treatment plants. Rivers unfit for swimming dropped 44 percent. Hazardous waste sites such as Love Canal and Times Beach now appear far less dangerous than once thought. Cars built in 1988 produced 96 percent less carbon monoxide and hydrocarbons than those made in the early 1980s. Population continues to grow sharply in some Third World states, but these increases reflect lower infant mortality rates and longer life expectancies. Total recoverable world oil reserves grew by 400 billion barrels between 1985 and 1990. Global warming trends may lengthen growing seasons. And extensive product packaging, falsely derided as wasteful, makes Americans among the most efficient eaters on earth.

The point is not that there are no environmental problems. But claims of imminent disaster are simply not supported by the facts. To the contrary, they reflect the politicization of the environment, because only claims of imminent disaster can galvanize popular support for the sort of exceedingly harsh policy changes advocated by many people for ideological—or even religious—reasons. Some environmental apocalyptic have admitted as much.

Politics has infected environmental policymaking in two different ways. The first is to create real environmental problems. The second is to generate unfounded hysteria.

Poor Environmental Stewardship

For all of the enthusiasm of environmentalists for government programs, the government has proved to be a remarkably poor resource steward. Consider Uncle Sam's 191 million acres of forestland. The Wilderness Society estimates that losses on federal timberland amounted to \$400 million annually during the 1980s, while losses on Alaska's Tsongass rain forest have hit 99 cents on the dollar. The problem is that the government both undertakes expensive investments, such as road-building in mountainous wilderness terrain, and underprices the timber that is produced. Washington's

reason for doing so is to "create" a few jobs. The cost, however, is both needless environmental destruction and the squandering of taxpayers' money.

Federal water projects and management of rangeland have consistently led to similar results. The government has expended billions of dollars to subsidize such influential groups as farmers and ranchers, all the while leaving environmental despoliation in its wake. In fact, the greatest threat to wetlands across the country is not private development, but federal efforts like the \$1.2 billion Garrison Diversion project, which destroyed some 70,000 acres of wetlands to benefit a few thousand farmers.

Nearly 90 percent of all federal water in the west is sold at heavily subsidized prices to heavily subsidized farmers. In California's San Joaquin Valley, for instance, irrigation projects typically cost \$300-\$500 an acre foot, yet the water is marketed to farmers for less than a tenth that much—even as Los Angeles and other parts of the state until recently were suffering from severe water shortages. Only the government would subsidize the production of a water-intensive crop like rice in a desert.

The federal government similarly mismanages its 307 million acres of rangeland. The Bureau of Land Management (BLM) has typically charged ranchers half of what it costs the government to administer its land, and one-tenth the rental price for comparable private lands. The BLM also spent millions of dollars "chaining" land—ripping out trees to create more rangeland on which it would lose more money. Not surprisingly, federal lands are generally in poor condition—and continue to generate a flood of red ink.

It is not just Uncle Sam who is to blame. Local governments have distorted the trash market, leading to pressure for a federal garbage law. Many localities have essentially socialized trash collection and disposal, barring any private competition which increases efficiency and innovation. Moreover, few cities charge citizens based upon how much garbage they generate, providing no incentive for people either to

recycle or to change their buying habits. (Localities that have implemented fees for each can or bag have made people more environmentally conscious without a trash Gestapo.) Political restrictions on the placement of new landfills and construction of incinerators, both of which are quite safe with new technologies, have exacerbated the problem.

But the U.S. government is the most culpable party. World Bank loans, underwritten by American taxpayers, have financed the destruction of Brazilian rain forests; federally subsidized flood insurance has encouraged uneconomic construction on the environmentally sensitive Barrier Islands. Years of energy price controls inflamed demand and discouraged conservation.

This sort of special-interest driven environmental abuse is not new, and the only solution is to eliminate political malfeasance. Unfortunately, as public choice economists have so effectively pointed out, the political process tends to be biased toward taxpayer exploitation and against sound policy.

Unfounded Hysteria

The second form of environmental politicization is more recent. That is the manufacture of false crises and the exaggeration of more limited problems to achieve other ideological ends, such as banning chemicals, closing incineration plants, and eliminating chlorofluorocarbons (CFCs). Unfortunately, examples of this sort of problem now abound.

For instance, in 1989 the Natural Resources Defense Council (NRDC) used a public relations agency to launch a campaign against the chemical Alar, a pesticide used on some 15 percent of apples in the United States. The charges received wide attention and demand for apples dropped dramatically—prices fell almost in half, ruining some farmers. Yet the furor was based on one 1973 study, where mice were fed very high levels of Alar. Two recent reviews, by Great Britain's Advisory Committee on Pesticides and the California De-

partment of Food and Agriculture, concluded that the risk of ingesting Alar was minimal. As Dr. Joseph Rosen of Rutgers University explained, "There was never any legitimate scientific study to justify the Alar scare."

But skillful manipulation of the media to inflame people's fears—and the enlistment of such knowledgeable environmental experts as Hollywood's Meryl Streep—enabled one activist group to create a crisis. The NRDC's public relations agent later circulated a memo to other organizations describing his efforts.

Indeed, pesticides have long been subject to counterfactual demagogic attacks. Natural pesticides—nature's way of protecting plants—may cause cancer, and they occur in far higher quantities in at least 57 food varieties than do man-made pesticides. A National Center for Policy Analysis study estimates that the risk of getting cancer from chloroform in tap water is greater than that of getting it from pesticides in food. A person is more than three times as likely to be killed by lightning than to contract cancer from pesticides. The risk of cancer from all pesticides in the food consumed by the average person in one day is one-twentieth of the risk from the natural carcinogens in a single cup of coffee.

Another apocalyptic vision emerged from the EPA, which in 1980 claimed that acid rain, caused by sulfur dioxide emissions, had increased the average acidity of northeast lakes one hundredfold over the last 40 years and was killing fish and trees alike. A year later the National Research Council predicted that the number of acidified lakes would double by 1990. So Congress included stringent provisions to cut SO₂ emissions (already down 50 percent from the 1970s) at a cost of billions of dollars annually when it re-authorized the Clean Air Act three years ago.

Yet in 1987 EPA research raised doubts about the destructiveness of acid rain: A congressional firestorm forced the study's director to quit. Then came the most complete study of acid rain ever conducted, the half billion dollar National Acid Precipitation Assessment Project (NAPAP), which

concluded that the allegedly horrific effects of acid rain were largely a myth. Among other things, the study found that lakes were on average no more acidic than before the industrial era; just 240 of 7,000 northeast lakes, most with little recreational value, were critically acidic, or "dead"; most of the acidic water was in Florida, where the rain is only one-third as acidic; there was only very limited damage to trees, far less than that evident elsewhere in the world where SO₂ emissions are minimal; half of the Adirondack lakes were acidified due to natural organic acids; and crops remained undamaged at acidic levels ten times present levels. In the end, NAPAP's scientists figured that applying lime to the few lakes that were acidic would solve the problem at a mere fraction of the cost of the Clean Air Act's acid rain provisions.

Perhaps the most famous form of the "sky is falling" claim today is global warming—the so-called "Greenhouse Effect." The U.N.'s 1992 Rio summit focused on this issue. The fear is that pollution, particularly such "greenhouse gases" as carbon dioxide, will stay within the atmosphere, leading to a rise in the earth's temperature, which will create deserts, melt the polar icecaps, and flood coastal nations.

In fact, warnings of global warming are not new: The theory was first advanced in the 1890s and re-emerged in the 1950s. But soon thereafter a new theory gained sway—that we were entering a new Ice Age. In 1974 the U.S. National Science Board stated that "during the last 20 to 30 years, world temperature has fallen, irregularly at first but more sharply over the last decade." In the same year, *Time* magazine opined that "the atmosphere has been growing gradually cooler for the past three decades. The trend shows no indication of reversing." Similarly, observed Dr. Murray Mitchell of the National Oceanic and Atmospheric Administration in 1976, "Since about 1940 there has been a distinct drop in average global temperature. It's fallen about half a degree Fahrenheit."

Five years later Fred Hoyle's *Ice: The Ultimate Human Catastrophe* appeared,

warning that a new Ice Age was long overdue, and "when the ice comes, most of northern America, Britain, and northern Europe will disappear under the glaciers. . . . The right conditions can arise within a single decade." He advocated warming the oceans to forestall this "ultimate human catastrophe." Another two years passed and *Rolling Stone* magazine declared that: "For years now, climatologists have foreseen a trend toward colder weather—long range, to be sure, but a trend as inevitable as death. . . . According to [one] theory, all it would take is a single cold summer to plunge the earth into a sudden apocalypse of ice."

A decade later we have passed into a new crisis. Climatologists like Stephen Schneider, who two decades ago was warning of a cooling trend that looked like "one akin to the Little Ice Age," now berates the media for covering scientists who are skeptical of claims that global warming is occurring. He is, at least, refreshingly honest, admitting that "to avert the risk we need to get some broad-based support, to capture public imagination. . . . So we have to offer up some scary scenarios, make some simplified dramatic statements and little mention of any doubts one might have."

And he does this precisely because the doubts about global warming are serious, so serious that both *The Washington Post* and *Newsweek* recently ran stories debunking the apocalyptic predictions of everyone from Vice President Gore to Greenpeace. Observed *The Post*:

Scientists generally agree that it has been getting warmer over the last hundred years, but the average rate of change is no greater than in centuries past, and there is no consensus that human activity is the cause. And while there is no doubt that continued emissions of "greenhouse gases" tend to aid warming, it is not clear that cutting back on emissions could do much to stop a natural trend, if that is what is happening.

Indeed, a survey by Greenpeace, one of the most radical environmental organiza-

tions, of scientists involved in the Intergovernmental Panel on Climate Change found that only 13 percent of them believed there was probably a point-of-no-return in the future leading to a runaway greenhouse effect. Just 17 percent of climatologists in a broader Gallup poll believed that human-induced warming had occurred at all, while 53 percent did not.

The problems with the theory are many. First, there is no reason to assume that any change in temperature is undesirable. In fact, peoples living in colder climates would benefit from small increases; higher temperatures at night also would likely have a positive impact.

Second, the evidence does not support the contention that human activity is raising temperatures. We have seen slight warming over the last century, but 90 percent of it occurred before 1940, when greenhouse gas emissions started rising dramatically. The assumptions suggest that daytime temperatures should rise in the northern hemisphere, but most of the limited warming so far observed has occurred at night in the southern hemisphere. The ice caps have been growing, not shrinking. And so on. Even those predicting a much hotter future have had to lower their forecasts over the last decade. In the end, it is obvious both that mankind, which produces just a couple percent of total CO₂, has only a limited impact on the earth's climate, and that the globe has a dramatic ability to adjust. For instance, increased pollution may help shield the earth from sunlight, counteracting any temperature increase. Higher temperatures at the poles actually allow more precipitation. Since serious warming could cause serious damage, there is cause to monitor changes in climate, but not yet to implement the sort of draconian changes demanded by the greenhouse crowd.

The ozone issue has been similarly politicized. The fear is that chlorofluorocarbons are thinning atmospheric ozone, allowing in more ultraviolet (UV) rays. In January 1992 a Harvard University chemist, James Anderson, held a press conference warning of a "hole" in the ozone in the so-called

polar vortex, the upper atmosphere over New England and Canada. His claims were based on the initial findings from a scientific expedition monitoring atmospheric conditions and received wide attention. Yet four months later he was forced to admit that "the dreaded ozone hole never materialized."

A decade ago apocalyptic environmentalists were warning of a reduction of 18 percent in ozone levels. Today the predictions are down to two to four percent. Even if these forecasts are borne out, the impact may not be dramatic: It would be like moving roughly 60 miles south, from Palm Beach to Miami in Florida. And, oddly, UV radiation levels have dropped over the last decade, even as the ozone layer was supposedly thinning. Moreover, there is some question as to whether CFC's—inexpensive, safe chemicals that have no obvious replacement—are really villainous destroyers of ozone after other factors are taken into account. Such things as ocean salt spray may help counteract increasing CFC levels. Explains Dr. Melvyn Shapiro of the National Oceanic and Atmospheric Administration, in making their claims even many atmospheric chemists "have little regard for the impact of atmospheric variability on chemical processes." In fact, the higher levels of chlorine monoxide detected in January did not create an ozone hole because temperatures were higher than expected.

Population growth has been cited as an impending disaster for nearly two centuries. Recent apocalyptics include Paul Ehrlich of Stanford University, who predicted mass famine and death in the 1970s, and former World Bank President Robert McNamara, who went so far as to compare the threat of population pressure to that of nuclear war.

Their argument is simple: More people mean the use of more resources and more waste. The end result is lower incomes and disaster.

This apocalyptic scenario ignores the fact that some part of the population "explosion" is short term, since infant mortality rates have fallen more swiftly than have fertility rates. Moreover, people normally produce more than they consume—other-

wise even one person would be too many. Further, fears of population growth assume a static view of the world, that economics is a zero-sum game. Yet the market naturally adjusts as the number of people and demand for goods and services increase; technological innovation and behavioral changes work together to allow better and more efficient resource use.

In practice we see no adverse relationship between population or population density and economic growth. Population density is very high in such places as Hong Kong, Singapore, and Taiwan, yet their economies have grown faster. The population of the Netherlands is 50 percent denser than India, Great Britain's is twice as dense as that of Thailand, and South Korea possesses less territory but twice the population of North Korea. In all of these cases the more populated states have achieved much higher levels of development.

The issue of population growth, then, is a red herring. The central issue is economic growth. The most important means of adaptation is the marketplace: If governments prevent people from freely producing goods and services, charging prices that reflect changing resource values, and responding to diverse human needs, then worsening poverty will result. Third World countries are impoverished not because they are populous, but because their governments have enforced anti-capitalistic economic policies.

Related to the supposed problem of too many people is that of too few resources. Such reports as the Club of Rome's 1972 *Limits to Growth* and the Carter Administration's 1980 *Global 2000* predicted that we would soon run out of key resources. Indeed, much of the Carter energy program was predicated on the assumption that we would soon run out of fossil fuels. (Since oil was first discovered in the United States 130 years ago people have been predicting that reserves would soon be depleted.)

The Club of Rome, which imagined the imminent exhaustion of such resources as gold, lead, and zinc, has already been proved wrong. Even more significant, however, is the fact that real resource prices fell

consistently throughout the 1980s. According to Stephen Moore, in a study for the Institute for Policy Innovation, "of 38 natural resources examined in this study, 34 declined in real price" between 1980 and 1990. Prices for two remained constant, while only the cost of manganese and zinc rose. Moore found that American and international prices of food, energy, timber, and minerals, for instance, all fell.

Again, the doomsayers have ignored the powerful adjustment process that occurs through the marketplace. As goods become scarcer, prices rise, encouraging entrepreneurs to locate new supplies, manufacture synthetic equivalents, find substitutes, use products more efficiently, and reduce consumption. As long as prices can rise freely, the market will ensure that shortages will not occur. The fact that real resource prices fell during the 1980s indicates that relative scarcity has not increased but decreased.

Apocalyptic predictions regarding a number of other issues, such as toxic wastes and desertification, have proved to be equally flawed. The point is not that there are no environmental problems, but rather that environmental issues tend to be quite complex and that one should not make long-run predictions based on short-term trends. Unfortunately, many activists are willing to distort the facts because they have either political or religious reasons for proclaiming that disaster is imminent.

The New Theology

The environment has become as much a spiritual as a political issue for some people. Many churches now recycle products, install solar power, and pray for endangered animal species. Moreover, religious leaders who once busily promoted social and economic "justice" are now turning to ecological concerns. Global warming "is a spiritual issue, not just a technical problem," explained Bruce McLeod, president of the Canadian Council of Churches, after his organization endorsed the U.N.'s World Climate Convention last year.

Indeed, a variety of religious environmen-

tal organizations have formed—the North American Coalition on Religion and Ecology (NACRE), Religion and Science for the Environment, and the Presbyterian Eco-Justice Task Force, for instance. The 1990 NACRE Intercontinental Conference on Caring for Creation presented a Liturgy for the Earth, in which "Mother Earth" spoke to her "children."

Much church activism is based on false scientific theories, such as global warming. More significant, however, is the theological contamination from much of the new conservation ethic. Christianity and Judaism hold man to be a steward of the earth, which King David declared to be "the Lord's, and everything in it" (Psalm 24:1). Because man thereby "subdues" or exercises dominion over the planet (Genesis 1:28), many environmentalists view these faiths as largely responsible for the plight of the earth today. Historian Lynn White, for one, has criticized Christianity for being "the most anthropocentric religion the world has ever seen." He further argued that "since the roots of our [environmental] trouble are so largely religious, the remedy must also be essentially religious." Many other environmentalists have made similar charges.

Strangely, some churchmen seem to agree. James Nash, Executive Director of the Churches' Center for Theology and Public Policy, writes that "without doubt, Christian traditions bear some responsibility for propagating" destructive environmental perspectives. Thus, "for the Christian churches," he argues, "the ecological crisis is more than a biophysical challenge. It is also a theological-ethical challenge." The obvious solution, then, is to make Christianity "green." We now have a similarly minded ecologist in the White House. "Both conservative and liberal theologians have every reason, scriptural as well as ideological, to define their spiritual mission in a way that prominently includes the defense of God's creation," argues Vice President Gore in his apocalyptic book, *Earth in the Balance*.

But some environmentalists go further, turning ecology into a separate religion by

mixing ancient and modern forms of pantheism. John Muir and a host of other early environmentalists experimented with different forms of Earth and nature worship. More recently, environmentalism has joined New Age thinking to produce a vibrant Neo-Pagan movement, including such practices as witchcraft, which has always had a heavy ecological emphasis, and goddess (Earth) worship. Moreover, explains Lesly Phillips, "the growing awareness of the urgent need to honor and heal Mother Earth has drawn many Unitarian Universalists to a contemporary pagan approach to religion."

Another religious strand is deep ecology, which treats the planet as sacred. Philosophy professors Bill Devall and George Sessions advocate "the revival of Earth-bonding rituals." Some deep ecologists even support the use of violence to protect their "god." Dave Foreman, co-founder of Earth First! and later convicted of attempting to blow up power pylons for an Arizona nuclear plant, explains that so-called eco-terrorism is "a form of worship toward the earth." He has also advocated allowing the poor in third world countries to starve, "to just let nature seek its own balance."

The new eco-spiritualism does more than threaten traditional faiths, which are being pressed to accept doctrines contrary their basic tenets. More broadly, treating the earth as sacred distorts public policy. Our objective should be to balance environmental preservation with economic growth and personal freedom, and to rely on market forces to make any environmental controls as efficient and as flexible as possible. Unfortunately, however, treating the environment as a goddess has caused environmental activists to advance the most frightening theories, irrespective of the evidence, and demand the most draconian controls possible, irrespective of the cost.

The Reds and the Greens

Many other environmentalists have radical philosophical rather than theological

agendas. Most of the activists are implicitly anti-capitalist, anti-profit, and, frankly, anti-freedom, since it is people acting freely that leads, in some conservationists' views, to consumerism, greed, pollution, and waste. In fact, it has been jokingly said that the only remaining socialists in the world are in the environmental movement, since they are promoting a centrally planned system based on government command-and-control regulation. The Reds have been replaced by the Greens.

The problem is not so much the motives of such activists, but the fact that their ideological biases lead them to ignore evidence questioning the genuineness of alleged environmental problems and to refuse to make compromises in drafting solutions to real concerns. While a doctrinal environmentalist might be happy with the policy result for religious or philosophical reasons, it is foolish for the rest of us to waste resources on non-problems and on unnecessarily inefficient clean-up strategies.

Environmental protection is important, and good people can disagree on the best policies to adopt. But today the public discussion over conservation is being distorted by politics and pagan theology, making the American public poorer and less free and the environment dirtier.

We need to look for private strategies to protect the environment. Privatizing federal timber and rangeland, for instance, would end subsidized development, since no private individual or company would willingly turn a dollar investment into a few cents in revenue. Establishing full private property rights in water would help conserve this precious resource in the western United States. We need to develop equally creative solutions for such "common pool" problems as air and water pollution. In short, we need to depoliticize the environment, making the issue one of balancing competing interests rather than imposing ideological or religious dogmas. If we succeed in doing so, we will end up with not only a cleaner society, but also a wealthier and freer one. □

LINKING LIBERTY, ECONOMY, AND ECOLOGY

by John A. Baden and Robert Ethier

Much environmental writing is marked by a profound disregard, even hostility, toward property rights and individual liberty. Self-interest is an evil to be combated. And markets, at best, provide mechanisms for people to express their self-interest in ways injurious to the earth.

To some Greens, economic progress implies planetary suicide. Instead, environmental groups offer eco-empathy, altruism, and socialism as guides for environmentally correct behavior. However, some are finding that environmental causes fostered through self-interest and property rights are more likely to succeed than appeals to environmental values and bureaucratic micro-management. Even the environmental newspaper *High Country News* finds "a growing free-market attitude toward environmental protection." Let's see why.

Prosperity and Ecology

For years environmentalists ignored or discounted the strong correlation between economic prosperity and environmental concern. But when prosperity is at risk,

people willingly trade environmental quality for economic gain. This occurs even in wealthy nations. In our political campaigns environmental themes are crowded out by economic issues. As Michael R. Deland, former chairman of the President's Council on Environmental Quality, observed: "in a recession there is an increased sensitivity to the job side of the equation."

This is because wealth fosters both environmental concern and the capacity to exercise that concern in a concrete way, e.g., with sewage treatment plants. The 1992 World Bank *World Development Report* shows that less than two percent of sewage in Latin America is treated. Worldwide more than one billion people have no safe water. In China, two-thirds of rivers near large cities are too polluted for fish. These are problems that require capital, not promises and Green pretenses.

Given that wealth *enhances* environmental quality, environmental policy can be based upon three fundamental principles: (1) private property and markets create wealth; (2) government management responds to political pressures in ways that decrease environmental quality; and (3) government's constructive role is to provide environmental monitoring. These principles can direct the environmental debate in a positive direction, avoiding wasteful efforts

John A. Baden is Chairman of the Foundation for Research on Economics and the Environment. Robert Ethier, a F.R.E.E. research assistant, contributed to this paper.

that advance only interest groups seeking political power and wealth transfers. These principles provide the basis for both an environmental vision and a sound policy direction.

International Trade Fosters Environmental Quality

The best way to spread free markets and create wealth in less developed nations is free trade. The U.S. has urged the removal of trade barriers in the Uruguay round of the General Agreement on Tariffs and Trade (GATT) talks. This has been opposed by some environmentalists who fear that trade, and its resultant economic growth, will bring degradation. They are misinformed. Environmental quality and prosperity are complementary. Evidence shows that wealthier is usually healthier; longevity is correlated with per capita income.

Free trade would increase global income levels while speeding the dissemination of pollution-control technologies. Research by Gene Grossman and Alan Krueger of Princeton indicates that economic growth also promotes a cleaner environment. For example, above a per capita income level of \$4,000–\$5,000, air quality improves. This is because wealth and efficiency go together—the U.S. emits almost 30 percent less CO₂ per \$1,000 of GNP than the world average. Improved efficiency and pollution control technologies, coupled with increased environmental awareness, allow production to rise while emissions fall.

Poor nations typically have low environmental standards and enforcement. Some environmentalists argue that free trade encourages the migration of polluting industries to these poor countries. However, a 1987 World Resources Institute study finds that environmental factors have not played a major role in determining international capital allocations. And as increased environmental concern, regulation, and enforcement in Mexico show, the prosperity accompanying trade speeds the adoption of shared higher standards among nations.

Senior economist Peter Emerson of the

Environmental Defense Fund writes, "poverty and economic autocracy are the handmaidens of environmental degradation." Only by attacking poverty can we effectively address environmental destruction and promote long-term stewardship abroad. We must loosen the stranglehold of the command-and-control approach to regulation, introducing markets and private management as the solution to environment problems.

Ending Command and Control at Home

As the U.S. works to promote free markets in Eastern Europe, the costs of its own environmental autocracy are ignored or heavily discounted. Many of the government's resource agencies, such as the Forest Service, the Bureau of Land Management, and the Bureau of Reclamation, operate in a perverse world in which they have incentives both to degrade the environment and to lose money.

Bureau of Land Management lands are among the most degraded and eroded in the west. Yet the agency continues to encourage, even require, overgrazing. Ranchers, who pay far below market rates for grazing rights, have little incentive to invest in soil conservation or water storage. If they attempt to rest an area through reduced use they are threatened with revocation of permits for underuse.

Many of the National Forests lose money while hurting the environment. They build roads whose costs are not covered by the revenues from the timber sales they facilitate, while the environmental costs are unaccounted for. Far more is invested in replanting than would be in a private forest, where natural revegetation is a realistic option. Budgets are maximized while the environment and the taxpayer suffer.

It is essential that environmental groups realize the negative effects of command-and-control policies on the environment. While politics may seem to be the cheapest route to environmental control, recent conflicts over preserving old growth timber for

spotted owl habitat show that environmentalists cannot count on the political process. By replacing political-bureaucratic management with market forces, property rights, and private management, we promote conservation and economic progress.

Innovation for Biodiversity

Much of the current environmental debate centers on endangered species preservation and biodiversity. This conflict is reduced to "jobs versus the environment," an unholy trade-off. Many environmentalists feel that government must mandate species preservation. This approach has been both unsuccessful and has infringed upon private property rights.

Environmental and wildlife groups could buy conservation easements in the areas where disturbances might harm species listed as endangered. The North American Elk Foundation, Trout Unlimited, and Ducks Unlimited have each done this on private lands and waters with private funds. Such organizations could also pay "bounties" to land managers if an endangered species successfully breeds on their land. The Montana chapter of Defenders of Wildlife has recently announced such a program to facilitate wolf reintroduction.

A rancher in Dubois, Wyoming, has offered to pay the Forest Service \$300,000 not to log a pristine canyon. This move was supported by many local citizens who value it as a recreation area. Some outfitters and guest ranches also benefit from its natural state because they use it for paying customers. But the Forest Service returned the \$100,000 down payment to the rancher because it was not allowed to create "a de facto wilderness area," even though the sum was almost certainly greater than any income the Forest Service would have received from timber sales. Only in a world as perverse as that of the Forest Service bureaucracy would a decision be made to lose money while at the same time harm the environment.

Because wildlife and their habitat are "public goods," some believe there is a theoretical case for government involvement. But a system encouraging private initiative is likely to be far more efficient and effective than federal mandates for species recovery. Costs would become explicit, not unevenly imposed upon landowners by the Endangered Species Act. This also allows comparisons and trade-offs to be made among competing species and habitats in a way that is impossible under the current Act.

Preserving Property Rights

In terms of our future environment, it is important that property rights be protected. The current Endangered Species Act has resulted in an attenuation of property rights and begun to provoke a backlash fueling the "wise-use" movement. In contrast, land and ecological trusts are founded upon private property rights. They preserve species by using, not sabotaging, property rights.

With proper incentives we can expect private land owners to support the listing of new species. Under the Endangered Species Act, if a landowner improves habitat on his own property to encourage an endangered species, he could lose control of that property. For example, Dayton Hyde, a rancher in Eastern Oregon, created a lake out of wilderness and attracted a variety of species including the American bald eagle. He was then told by the Forest Service that he could no longer access his property by truck because he might disturb the eagles. This is a perversity of monumental proportions.

A sound economy fosters environmental protection. We must eschew conventional Green wisdom with its appeals to command-and-control mechanisms. Environmental quality will be enhanced via markets and secure property rights, an approach that is consistent with America's intellectual heritage. Government must be the moderator, not the manager. In this way we can have both environmental quality and prosperity. □

SCIENCE AND THE ENVIRONMENT

by Bruce N. Ames

It is popular these days to espouse an apocalyptic vision of the future of our planet. Pollution is being blamed for global warming and ozone depletion, pesticides for cancer. Yet these and many other purported environmental causes are based on weak or bad science. The reality is that the future of the planet has never been brighter. With the bankruptcy of Communism, a hopeful world is on the path to democracy, free markets, and greater prosperity. Science and technology develop in a free society, and free markets bring wealth, which is associated with both better health and lower birth rates. Scientific advances and free markets can also lead to technologies that minimize pollution for the lowest cost. A market for pollution rights is desirable—polluting shouldn't be free—and is much more effective than a bureaucratic monopoly. In my scenario for the future, I would like to see environmentalism based on scientific evidence and directed at solving real problems rather than phantoms.

An example of this problem is the public misconception that pollution is a significant contributor to cancer and that cancer rates are soaring. As life expectancy continues to increase in industrialized countries, cancer rates (unadjusted for age) also increase;

however, the age-adjusted cancer death rate in the United States for all cancers combined (excluding lung cancer from smoking) has been steady or decreasing since 1950. Decreasing since 1950 are primarily stomach, cervical, uterine, and rectal cancers. Increasing are primarily lung cancer (which is due to smoking, as are 30 percent of all U.S. cancer deaths), melanoma (possibly due to sunburn), and non-Hodgkin's lymphoma. Cancer is fundamentally a degenerative disease of old age, although external factors can increase cancer rates (cigarette smoking in humans) or decrease them (eating more fruits and vegetables).

A second misconception is that high-dose animal cancer tests tell us the significant cancer risks for humans. Approximately half of all chemicals—whether natural or synthetic—that have been tested in standard animal cancer tests have turned out to be carcinogenic. These standard tests of chemicals are conducted chronically, at near-toxic doses—the maximum tolerated dose—and evidence is accumulating that it may be the high dose itself, rather than the chemical *per se* that is the risk factor for cancer. (This is because high doses can cause chronic wounding of tissues or other effects that lead to chronic cell division, which is a major risk factor for cancer.) At the very low levels of chemicals to which humans are exposed through water pollution or synthetic pesticide residues, such increased cell division

Bruce Ames is Professor of Biochemistry and Molecular Biology at the University of California, Berkeley, where he is also the Director of the Environmental Health Sciences Center.

does not occur. Thus, they are likely to pose no or minimal cancer risks.

The third misconception is that human exposures to carcinogens and other toxins are nearly all due to synthetic chemicals. On the contrary, the amount of synthetic pesticide residues in plant foods are insignificant compared to the amount of natural pesticides produced by plants themselves. Of all dietary pesticides, 99.99 percent are natural: They are toxins produced by plants to defend themselves against fungi and animal predators. Because each plant produces a different array of toxins, we estimate that on average Americans ingest roughly 5,000 to 10,000 different natural pesticides and their breakdown products. Americans eat an estimated 1,500 milligrams of natural pesticides per person per day, which is about 10,000 times more than they consume of synthetic pesticide residues. By contrast, the FDA found the residues of 200 synthetic chemicals, including the synthetic pesticides thought to be of greatest importance, average only about 0.09 milligram per person per day.

The fourth misconception is that synthetic toxins pose greater carcinogenic hazards than natural toxins. On the contrary, the proportion of natural chemicals that is carcinogenic when tested in both rats and mice is the same as for synthetic chemicals—roughly half. All chemicals are toxic at some dose, and 99.99 percent of the chemicals we ingest are natural.

The fifth misconception is that the toxicology of man-made chemicals is different from that of natural chemicals. Humans have many general natural defenses that make us well buffered against normal exposures to toxins, both natural and synthetic. DDT is often viewed as the typically dangerous synthetic pesticide. However, it saved millions of lives in the tropics and made obsolete the pesticide lead arsenate, which is even more persistent and toxic, although all natural. While DDT was unusual with respect to bioconcentration, nat-

ural pesticides also bioconcentrate if they are fat soluble. Potatoes, for example, naturally contain fat soluble neurotoxins detectable in the bloodstream of all potato eaters. High levels of these neurotoxins have been shown to cause birth defects in rodents.

The sixth misconception is that correlation implies causation. The number of storks in Germany has been decreasing for decades. At the same time, the German birth rate also has been decreasing. Aha! Solid evidence that storks bring babies! Cancer clusters in small areas are expected to occur by chance alone, and there is no persuasive evidence from either epidemiology or toxicology that pollution is a significant cause of cancer for the general population.

There are tradeoffs involved in eliminating pesticides. Plants need chemical defenses—either natural or synthetic—in order to survive pest attack. One consequence of disproportionate concern about synthetic pesticide residues is that some plant breeders are currently developing plants to be more insect-resistant and inadvertently are selecting plants higher in natural toxins. A major grower recently introduced a new variety of highly insect-resistant celery into commerce. The pest-resistant celery contains 6,200 parts per billion (ppb) of carcinogenic (and mutagenic) psoralens instead of the 800 ppb normally present in celery. The celery is still on the market.

Synthetic pesticides have markedly lowered the cost of plant foods, thus making them more available to consumers. Eating more fruits and vegetables is thought to be the best way to lower risks from cancer and heart disease, other than giving up smoking; our vitamins, anti-oxidants, and fiber come from plants and are important anti-carcinogens. Thus, eliminating essential pesticides is likely to increase cancer rates. Huge expenditure of money and effort on tiny hypothetical risks does not improve public health. Rather, it diverts our resources from real human health hazards, and it hurts the economy. □

OVERPOPULATION: THE PERENNIAL MYTH

by David Osterfeld

"What most frequently meets our view (and occasions complaint) is our teeming population. Our numbers are burdensome to the world, which can hardly support us. . . . In very deed, pestilence, and famine, and wars, and earthquakes have to be regarded as a remedy for nations, as the means of pruning the luxuriance of the human race."

This was not written by professional doomsayer Paul Ehrlich (*The Population Bomb*, 1968). It is not found in the catastrophist works of Donella and Dennis Meadows (*The Limits to Growth*, 1972; *Beyond the Limits*, 1992). Nor did it come from the Council on Environmental Quality and the Department of State's pessimistic assessment of the world situation, *The Global 2000 Report to the President* (1980).

It did not even come from Thomas Malthus, whose *Essay on Population* (1798) in the late eighteenth century is the seminal work to which much of the modern concern about overpopulation can be traced. And it did not come from Botero, a sixteenth-century Italian whose work anticipated many of the arguments advanced by Malthus two centuries later.

The opening quotation was penned by Tertullian, a resident of the city of Carthage in the second century, when the population

of the world was about 190 million, or only three to four percent of what it is today. And the fear of overpopulation did not begin with Tertullian. One finds similar concerns expressed in the writings of Plato and Aristotle in the fourth century B.C., as well as in the teachings of Confucius as early as the sixth century B.C.

From the period before Christ, men have been worried about overpopulation. Those concerns have become ever more frenzied. On an almost daily basis we are fed a barrage of stories in the newspapers and on television—complete with such appropriately lurid headlines as “Earth Near the Breaking Point” and “Population Explosion Continues Unabated”—predicting the imminent starvation of millions because population is outstripping the food supply. We regularly hear that because of population growth we are rapidly depleting our resource base with catastrophic consequences looming in our immediate future. We are constantly told that we are running out of living space and that unless something is done, and done immediately, to curb population growth, the world will be covered by a mass of humanity, with people jammed elbow to elbow and condemned to fight for each inch of space.

The catastrophists have been predicting doom and gloom for centuries. Perhaps the single most amazing thing about this perennial exercise is that the catastrophists seem

Dr. Osterfeld is Professor of Political Science at Saint Joseph's College in Rensselaer, Indiana.

never to have stopped quite long enough to notice that their predictions have *never* materialized. This probably says more about the catastrophists themselves than anything else. Catastrophism is characterized by intellectual arrogance. It's been said of Thomas Malthus, for example, that he underestimated everyone's intelligence but his own. Whenever catastrophists confront a problem for which they cannot imagine a solution, the catastrophists conclude that no one else in the world will be able to think of one either. For example, in *Beyond the Limits* the Meadows tell us that crop yields, at least in the Western world, have reached their peak. Since the history of agriculture is largely a history of increasing yields per acre, one would be interested in knowing how they arrived at such a significant and counter-historical conclusion. Unfortunately, such information is not forthcoming.

Overpopulation

But isn't the world overpopulated? Aren't we headed toward catastrophe? Don't more people mean less food, fewer resources, a lower standard of living, and less living space for everyone? Let's look at the data.

As any population graph clearly shows, the world has and is experiencing a population explosion that began in the eighteenth century. Population rose sixfold in the next 200 years. But this explosion was accompanied, and in large part made possible, by a productivity explosion, a resource explosion, a food explosion, an information explosion, a communications explosion, a science explosion, and a medical explosion.

The result was that the sixfold increase in world population was dwarfed by the eighty-fold increase in world output. As real incomes rose, people were able to live healthier lives. Infant mortality rates plummeted and life expectancies soared. According to anthropologists, average life expectancy could never have been less than 20 years or the human race would not have survived. In 1900 the average world life expectancy was about 30 years. In 1993 it is just over 65 years. Nearly 80 percent of the increase in

world life expectancy has taken place in just the last 90 years! That is arguably one of the single most astonishing accomplishments in the history of humanity. It is also one of the least noted.

But doesn't this amazing accomplishment create precisely the overpopulation problem about which the catastrophists have been warning us? The data clearly show that this is *not* the case. "Overpopulation" cannot stand on its own. It is a relative term. Overpopulation must be overpopulation *relative* to something, usually food, resources, and living space. The data show that all three variables are, and have been, increasing more rapidly than population.

Food. Food production has outpaced population growth by, on average, one percent per year ever since global food data began being collected in the late 1940s. There is currently enough food to feed everyone in the world. And there is a consensus among experts that global food production could be increased dramatically if needed. The major problem for the developed countries of the world is food surpluses. In the United States, for example, millions of acres of good cropland lie unused each year. Many experts believe that even with no advances in science or technology we currently have the capacity to feed adequately, on a sustainable basis, 40 to 50 billion people, or about eight to ten times the current world population. And we are currently at the dawn of a new agricultural revolution, biotechnology, which has the potential to increase agricultural productivity dramatically.

Where people are hungry, it is because of war (Somalia, Ethiopia) or government policies that, in the name of modernization and industrialization, penalize farmers by taxing them at prohibitive rates (e.g., Nigeria, Ghana, Kenya), not because population is exceeding the natural limits of what the world can support.

Significantly, during the decade of the 1980s, agricultural prices in the United States, in real terms, declined by 38 percent. World prices followed similar trends and today a larger proportion of the world's

people are better fed than at any time in recorded history. In short, food is becoming more abundant.

Resources. Like food, resources have become more abundant over time. Practically all resources, including energy, are cheaper now than ever before. Relative to wages, natural resource prices in the United States in 1990 were only one-half what they were in 1950, and just one-fifth their price in 1900. Prices outside the United States show similar trends.

But how can resources be getting more abundant? Resources are not things that we find in nature. It is ideas that make things resources. If we don't know how to use something, it is not a resource. Oil is a perfect example. Prior to the 1840s oil was a liability rather than a resource. There was little use for it and it would often seep to the surface and get into the water supply. It was only with the dawn of the machine age that a use was discovered for this "slimy ooze."

Our knowledge is even more important than the physical substance itself, and this has significant ramifications: More people mean more ideas. There is no reason, therefore, that a growing population must mean declining resource availability. Historically, the opposite has been true. Rapidly growing populations have been accompanied by rapidly declining resource prices as people have discovered new ways to use existing resources as well as uses for previously unused materials.

But an important caveat must be introduced here. For the foregoing to occur, the political and economic institutions must be right. A shortage of a good or service, including a resource, will encourage a search both for additional supplies and for substitutes. But this is so only if those who are successful are able to profit from their effort. This is precisely what classical liberalism, with its emphasis on private property and the free market, accomplishes. A shortage of a particular resource will cause its price to rise, and the lure of profit will attract entrepreneurs anxious to capitalize on the shortage by finding solutions, either additional supplies of the existing material or the

development of an entirely new method of supplying the service. Communicating through the use of fiber optics rather than copper cable is a case in point.

Entrepreneurs typically have drawn scientists and others with relevant expertise into the field by paying them to work on the problem. Thus, the market automatically ensures that those most likely to find solutions to a particular problem, such as a shortage of an important resource, are drawn into positions where they can concentrate their efforts on finding solutions to the problem. To cite just a single example, a shortage of ivory for billiard balls in nineteenth-century England led to the invention of celluloid, followed by the entire panoply of plastics.

In the absence of an efficient and reliable way to match up expertise with need, our efforts are random. And in the absence of suitable rewards for satisfying the needs of society, little effort will be forthcoming. It was certainly no accident that the takeoff, both in population growth and economic growth, dates from the decline of mercantilism and extensive government economic regulations in the eighteenth century, and the emergence in the Western world of a relatively free market, characterized by private property, low taxes, and little government interference.

In every category—per capita income, life expectancy, infant mortality, cars, telephones, televisions, radios per person—the performance of the more free market countries far surpasses the more interventionist countries. The differences are far too large as well as systematic to be attributed to mere chance.

Living Space. But even if food and resources are becoming more abundant, certainly this can't be true for living space. After all, the world is a finite place and the more people in it, the less space there is for everyone. In a statistical sense this is true, of course. But it is also irrelevant. For example, if the entire population of the world were placed in the state of Alaska, *every individual* would receive nearly 3,500 square feet of space, or about one-half the

size of the average American *family* home-stead with front and back yards. Alaska is a big state, but it is a mere one percent of the earth's land mass. Less than one-half of one percent of the world's ice-free land area is used for human settlements.

But perhaps "living space" can be measured more meaningfully by looking at such things as the number of houses, the amount of floor space, or the number of rooms per person. There are more houses, more floor space, and more rooms per person than ever before. In short, like both food and resources, living space is, by any meaningful measure, becoming more abundant.

Finally, it should be noted that the population explosion has begun to fizzle. Population growth peaked at 2.1 percent per year in the late 1960s and has declined to its present rate of 1.7 percent. There is no doubt that this trend will continue since, according to the latest information supplied by the World Health Organization, total fertility rates (the number of births per woman) have declined from 4.5 in 1970 to

just 3.3 in 1990. That is exactly fifty percent of the way toward a fertility rate of 2.1 which would eventually bring population growth to a halt.

Everything is not fine. There are many problems in the world. Children are malnourished. But the point that cannot be ignored is that all of the major economic trends are in the right direction. Things are getting better.

Contrary to the constant barrage of doomsday newspaper and television stories, the data clearly show that the prospect of the Malthusian nightmare is growing steadily more remote. The natural limits of what the earth can support are steadily receding, not advancing. Population growth is slowing while the supplies of food, resources, and even living space are increasing. Moreover, World Bank data show that real wages are increasing, which means that people are actually becoming more scarce.

In short, although there are now more people in the world than ever before, by any meaningful measure the world is actually becoming *relatively less populated*. □

THEFREEMAN
IDEAS ON LIBERTY

STEWARDSHIP VERSUS BUREAUCRACY

by Rick Perry

Ensuring a safe, plentiful water supply is an issue crucial to the well-being of every American—one that will certainly intensify as we move into the twenty-first

Rick Perry is Commissioner of the Texas Department of Agriculture.

century. Thus, we must answer this question: How can we guarantee a sufficient supply of water to satisfy the necessary but competing demands of agriculture, industry, and a population that is expected to increase rapidly in the next 50 years?

First of all we must challenge the assumption

tion that government ownership offers the best solution for protecting our precious natural resources. The premise that puts bureaucratic regulation above the rights of private property owners is not only false, it actually promotes problems for our environment.

Look, for example, at the Pacific Northwest, where a combination of federally operated dams and reservoirs and state policies that prevent the resale of water rights has contributed to the depletion of salmon populations.

The salmon's seasonal need for high water levels to journey to its summer spawning grounds coincides with peak consumer demand for electricity in the West. So, it would make good sense to produce and sell more hydroelectricity during these peak months and to conserve it when demand is low. Consumers would benefit and so would the salmon.

Unfortunately, a maze of bureaucratic regulations—combined with the West's "use it or lose it" rule that often prevents resale of water rights—makes such a sensible solution nearly impossible, and the salmon species has suffered, not benefited.

Our natural resources are better left in the hands of private citizens who are more likely than government agencies to care for them. It's a question of stewardship versus bureaucracy. Private ownership gives people a vested interest in their property, instills pride in what they own.

Ownership also spurs agricultural producers to manage their resources wisely—their water as well as their land. In Texas,

groundwater management has historically been based on the "right of capture," the decades-old, time-honored premise that bestows ownership of water on the owner of the land above. Under this system, farmers and ranchers have led the way in developing efficient methods of water use.

There is room for improvement, however. Though ownership of groundwater is vested in property owners in the Texas Water Code, this property right is loosely defined, which affects the incentive to conserve. A market-based system for groundwater with well defined, enforceable, and transferable property rights based on the surface ownership would more accurately reflect water's economic and ecological value to society. By strictly defining the ownership of underground water, it can be given a value—just as land has—and become subject to the efficiencies of the marketplace. Water rights would be more marketable, and owners would be able to sell water to buyers at a price reflecting market demand.

Such a market-based system would replace government control of water—and the specter of rationing, expensive financing programs, and confiscation of water rights by a centralized bureaucracy. Government involvement would remain in the hands of local water districts that would define owners' rights and devise enforcement methods appropriate to each locality.

A market-based system—achieved by placing a value on water inventories—would motivate agricultural producers to increase even further their conservation efforts and enhance supplies for future generations. □

Making Every Drop Count

Water markets offer something for nearly everyone: They can eliminate water shortages, reduce environmental degradation, and reduce government spending, too.

—DON LEAL, *The Freeman*, June 1988

IDEAS
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THE MARKET AND NATURE

by Fred L. Smith, Jr.

Many environmentalists are dissatisfied with the environmental record of free economies. Capitalism, it is claimed, is a wasteful system, guilty of exploiting the finite resources of the Earth in a vain attempt to maintain a non-sustainable standard of living. Such charges, now raised under the banner of "sustainable development," are not new. Since Malthus made his dire predictions about the prospects for world hunger, the West has been continually warned that it is using resources too rapidly and will soon run out of something, if not everything. Nineteenth-century experts such as W. S. Jevons believed that world coal supplies would soon be exhausted and would have been amazed that over 200 years of reserves now exist. U.S. timber "experts" were convinced that North American forests would soon be a memory. They would similarly be shocked by the reforestation of eastern North America—reforestation that has resulted from market forces and not mandated government austerity.

In recent decades, the computer-generated predictions of the Club of Rome enjoyed a brief popularity, arguing that everything would soon disappear. Fortunately, most now recognize that such computer simulations, and their static view of resource supply and demand, have no relation to reality. Nevertheless, these models are

back, most notably in the book *Beyond the Limits*, and enjoying their newly found attention. This theme of imminent resource exhaustion has become a chronic element in the annual Worldwatch publication, *State of the World*. (This book is, to my knowledge, the only gloom-and-doom book in history which advertises next year's edition.) Today, sustainable development theorists, from the World Bank's Herman Daly and the United Nations' Maurice Strong to Vice President Albert Gore and Canadian David Suzuki, seem certain that, at last, Malthus will be proven right. It was this environmental view that was on display at the United Nations' "Earth Summit" in Rio de Janeiro in 1992. This conference, vast in scope and mandate, was but the first step in the campaign to make the environment the central organizing principle of global institutions.

If such views are taken seriously, then the future will indeed be a very gloomy place, for if such disasters are in the immediate future, then drastic government action is necessary. Consider the not atypical views of David Suzuki: "[T]here has to be a radical restructuring of the priorities of society. That means we must no longer be dominated by global economics, that the notion that we must continue to grow indefinitely is simply off, that we must work towards, not zero growth, but negative growth." For the first time in world history, the leaders of the developed nations are being asked to turn

Fred L. Smith, Jr., is the President of the Competitive Enterprise Institute.

their backs on the future. The resulting policies could be disastrous for all mankind.

The Environmental Challenge

The world does indeed face a challenge in protecting ecological values. Despite tremendous success in many areas, many environmental concerns remain. The plight of the African elephant, the air over Los Angeles, the hillsides of Nepal, the three million infant deaths from water-borne diseases throughout the world, and the ravaging of Brazilian rain forests all dramatize areas where problems persist, and innovative solutions are necessary.

Sustainable development theorists claim these problems result from "market failure": the inability of capitalism to address environmental concerns adequately. Free market proponents suggest that such problems are not the result of market forces, but rather of their absence. The market already plays a critical role in protecting those resources privately owned and for which political interference is minimal. In these instances there are truly sustainable practices. Therefore, those concerned with protecting the environment and ensuring human prosperity should seek to expand capitalism, through the extension of property rights, to the broadest possible range of environmental resources. Our objective should be to reduce political interference in both the human and the natural environments, not to expand it.

Private stewardship of environmental resources is a powerful means of ensuring sustainability. Only people can protect the environment. Politics *per se* does nothing. If political arrangements fail to encourage individuals to play a positive role, the arrangements can actually do more harm than good. There are tens of millions of species of plants and animals that merit survival. Can we imagine that the 150 or so governments on this planet—many of which do poorly with their human charges—will succeed in so massive a stewardship task? Yet there are in the world today over five billion people. Freed to engage in private stewardship, the

challenge before them becomes surmountable.

Sustainable Development and Its Implications

The phrase *sustainable development* suggests a system of natural resource management that is capable of providing an equivalent, or expanding, output over time. As a concept, it is extremely vague, often little more than a platitude. Who, after all, favors non-sustainable development? The basic definition promoted by Gro Harlem Brundtland, former Prime Minister of Norway and a prominent player at the Earth Summit, is fairly vague as well: "[S]ustainable development is a notion of discipline. It means humanity must ensure that meeting present needs does not compromise the ability of future generations to meet their own needs."

In this sense, sustainability requires that as resources are consumed one of three things must occur: New resources must be discovered or developed; demands must be shifted to more plentiful resources; or, new knowledge must permit us to meet such needs from the smaller resource base. That is, as resources are depleted, they must be renewed. Many assume that the market is incapable of achieving this result. A tremendous historical record suggests exactly the opposite.

Indeed, to many environmental "experts," today's environmental problems reflect the failure of the market to consider ecological values. This market failure explanation is accepted by a panoply of political pundits of all ideological stripes, from Margaret Thatcher to Earth First! The case seems clear. Markets, after all, are short-sighted and concerned only with quick profits. Markets undervalue biodiversity and other ecological concerns not readily captured in the marketplace. Markets ignore effects generated outside of the market, so-called externalities, such as pollution. Since markets fail in these critical environmental areas, it is argued, political intervention is necessary. That intervention should be careful, thoughtful, even scientific, but

the logic is clear: Those areas of the economy having environmental impacts must be politically controlled. Since, however, every economic decision has some environmental effect, the result is an effort to regulate the whole of human activity.

Thus, without any conscious decision being made, the world is moving decisively toward central planning for ecological rather than economic purposes. The Montreal Protocol on chlorofluorocarbons, the international convention on climate change, the proposed convention on biodiversity, and the full range of concerns addressed at the U.N. Earth Summit—all are indicative of this rush to politicize the world's economies. That is unfortunate, for ecological central planning is unlikely to provide for a greener world.

Rethinking the Market Failure Paradigm

The primary problem with the market failure explanation is that it demands too much. In a world of pervasive externalities—that is, a world where all economic decisions have environmental effects—this analysis demands that all economic decisions be politically managed. The world is only now beginning to recognize the massive mistake entailed in economic central planning; yet, the “market failure” paradigm argues that we embark on an even more ambitious effort of ecological central planning. The disastrous road to serfdom can just as easily be paved with green bricks as with red ones.

Environmental policy today is pursued exactly as planned economies seek to produce wheat. A political agency is assigned the task. It develops detailed plans, issues directives, and the citizens comply. That process will produce *some* wheat just as environmental regulations produce some gains. However, neither system enlists the enthusiasm and the creative genius of the citizenry, and neither leads to prosperity. In fact, political management has been able to turn the cornucopia that was the Horn of Africa into a barren, war-torn desert.

That markets “fail” does not mean that

governments will “succeed.” Governments, after all, are susceptible to special interest pleadings. A complex political process often provides fertile ground for economic and ideological groups to advance their agendas at the public expense. The U.S. tolerance of high sulfur coal and the massive subsidies for heavily polluting “alternative fuels” are evidence of this problem. Moreover, governments lack any means of acquiring the detailed information dispersed throughout the economy essential to efficiency and technological change.

More significantly, if market forces were the dominant cause of environmental problems, then the highly industrialized, capitalist countries should suffer from greater environmental problems than their centrally managed counterparts. This was once the conventional wisdom. The Soviet Union, it was argued, would have no pollution because the absence of private property, the profit motive, and individual self-interest would eliminate the motives for harming the environment. The opening of the Iron Curtain exploded this myth, as the most terrifying ecological horrors ever conceived were shown to be the Communist reality. The lack of property rights and profit motivations discouraged efficiency, placing a greater stress on natural resources. The result was an environmental disaster.

Do Markets Fail—Or Do We Fail to Allow Markets?

John Kenneth Galbraith, an avowed proponent of statist economic policies, inadvertently suggested a new approach to environmental protection. In an oft-quoted speech he noted that the U.S. was a nation in which the yards and homes were beautiful and in which the streets and parks were filthy. Galbraith then went on to suggest that we effectively nationalize the yards and homes. For those of us who believe in property rights and economic liberty, the obvious lesson is quite the opposite.

Free market environmentalists seek ways of placing these properties in the care of individuals or groups concerned about their

well-being. This approach does not, of course, mean that trees must have legal standing, but rather a call for ensuring that behind every tree, stream, lake, air shed, and whale stands one or more owners who are able and willing to protect and nurture that resource.

Consider the plight of the African elephant. On most of the continent, the elephant is managed like the American buffalo once was. It remains a political resource. Elephants are widely viewed as the common heritage of all the peoples of these nations, and are thus protected politically. The "common property" management strategy being used in Kenya and elsewhere in East and Central Africa has been compared and contrasted with the experiences of those nations such as Zimbabwe which have moved decisively in recent years to transfer elephant ownership rights to regional tribal councils. The differences are dramatic. In Kenya, and indeed all of eastern Africa, elephant populations have fallen by over 50 percent in the last decade. In contrast, Zimbabwe's elephant population has been increasing rapidly. As with the beaver in Canada, a program of conservation through use that relies upon uniting the interests of man and the environment succeeds where political management has failed.

The Market and Sustainability

The prophets of sustainability have consistently predicted an end to the world's abundant resources, while the defenders of the free market point to the power of innovation—innovation which is encouraged in the marketplace. Consider the agricultural experience. Since 1950, improved plant and animal breeds, expanded availability and types of agri-chemicals, innovative agricultural techniques, expanded irrigation, and better pharmaceutical products have all combined to spur a massive expansion of world food supplies. That was not expected by those now championing "sustainable development." Lester Brown, in his 1974 Malthusian publication *By Bread Alone*, suggested that crop yield increases would

soon cease. Since that date, Asian rice yields have risen nearly 40 percent, an approximate increase of 2.4 percent per year. This rate is similar to that of wheat and other grains. In the developed world it is food surpluses, not food shortages, that present the greater problem, while political institutions continue to obstruct the distribution of food in much of the Third World.

Man's greater understanding and ability to work with nature have made it possible to achieve a vast improvement in world food supplies, to improve greatly the nutritional levels of a majority of people throughout the world, in spite of rapid population growth. Moreover, this has been achieved while reducing the stress to the environment. To feed the current world population at current nutritional levels using 1950 yields would require plowing under an additional 10 to 11 million square miles, almost tripling the world's agricultural land demands (now at 5.8 million square miles). This would surely come at the expense of land being used for wildlife habitat and other applications.

Moreover, this improvement in agriculture has been matched by improvements in food distribution and storage, again encouraged by natural market processes and the "profit incentive" that so many environmentalists deplore. Packaging has made it possible to reduce food spoilage, reduce transit damage, extend shelf life, and expand distribution regions. Plastic and other post-use wraps along with the ubiquitous Tupperware have further reduced food waste. As would be expected, the United States uses more packaging than Mexico, but the additional packaging results in tremendous reductions in waste. On average, a Mexican family discards 40 percent more waste each day. Packaging often eliminates more waste than it creates.

Despite the fact that capitalism has produced more environment-friendly innovations than any other economic system, the advocates of sustainable development insist that this process must be guided by benevolent government officials. That such efforts, such as the United States' synthetic fuels project of the late 1970s, have resulted

in miserable failures is rarely considered. It is remarkable how many of the participants at the U.N. Earth Summit seemed completely oblivious to this historical reality.

In the free market, entrepreneurs compete in developing low-cost, efficient means to solve contemporary problems. The promise of a potential profit, and the freedom to seek after it, always provides the incentive to build a better mousetrap, if you will. Under planned economies, this incentive for innovation can never be as strong, and the capacity to reallocate resources toward more efficient means of production is always constrained.

This confusion is also reflected in the latest environmental fad: waste reduction. With typical ideological fervor, a call for increased efficiency in resource use becomes a call to use less of everything, regardless of the cost. Less, we are told, is more in terms of environmental benefit. But neither recycling nor material or energy use reductions *per se* are a good thing, even when judged solely on environmental grounds. Recycling paper often results in increased water pollution, increased energy use, and in the United States, actually discourages the planting of new trees. Mandating increased fuel efficiency for automobiles reduces their size and weight, which in turn reduces their crashworthiness and increases highway fatalities. Environmental policies must be judged on their results, not just their motivations.

Overcoming Scarcity

Environmentalists tend to focus on ends rather than process. This is surprising given their adherence to ecological teaching. Their obsession with the technologies and material usage patterns of today reflects a failure in understanding how the world works. The resources that people need are not chemicals, wood fiber, copper, or the other natural resources of concern to the sustainable development school. We demand housing, transportation, and communication services. How that demand is met is a derivative result based on competitive forces—forces which respond by suggesting

new ways of meeting old needs as well as improving the ability to meet such needs in the older ways.

Consider, for example, the fears expressed in the early post-war era that copper would soon be in short supply. Copper was the lifeblood of the world's communication system, essential to link together humanity throughout the world. Extrapolations suggested problems and copper prices escalated accordingly. The result? New sources of copper in Africa, South America, and even the U.S. and Canada were found. That concern, however, also prompted others to review new technologies, an effort that produced today's rapidly expanding fiber optics links.

Such changes would be viewed as miraculous if not now commonplace in the industrialized, and predominantly capitalistic, nations of the world. Data assembled by Lynn Scarlett of the Reason Foundation noted that a system requiring, say, 1,000 tons of copper can be replaced by as little as 25 kilograms of silicon, the basic component of sand. Moreover, the fiber optics system has the ability to carry over 1,000 times the information of the older copper wire. Such rapid increases in communication technology are also providing for the displacement of oil as electronic communication reduces the need to travel and commute. The rising fad of telecommuting was not dreamed up by some utopian environmental planner, but was rather a natural outgrowth of market processes.

It is essential to understand that physical resources are, in and of themselves, largely irrelevant. It is the interaction of man and science that creates resources: Sand and knowledge become fiber optics. Humanity and its institutions determine whether we eat or die. The increase of political control of physical resources and new technologies only increases the likelihood of famine.

Intergenerational Equity

Capitalism is ultimately attacked on grounds of unsustainability for its purported failure to safeguard the needs of future generations. Without political intervention,

it is argued, capitalists would leave a barren globe for their children. Thus, it is concluded, intergenerational equity demands that politics intervene. But are these criticisms valid?

Capitalists care about the future because they care about today's bottom line. Market economies have created major institutions—bond and stock markets, for example—which respond to changes in operating policies that will affect future values. A firm that misuses its capital or lowers its quality standards, a pet store that mistreats its stock, a mine that reduces maintenance, a farmer that permits erosion—all will find the value of their capital assets falling. Highly specialized researchers expend vast efforts in ferreting out changes in management practices that might affect future values; investment houses pay future analysts very well indeed to examine such questions.

Markets, of course, are not able to foresee all eventualities, nor do they consider consequences hundreds of years into the future. Yet, consider the time horizon of politicians. In the U.S., at least, they are concerned with only one thing: getting re-elected, a process that provides them at best a two-to-six-year time horizon. Politically managed infrastructure is routinely under-maintained; funds for new roads are more attractive than the smaller sums used to repair potholes; national forests are more poorly maintained than private forests; erosion is more serious on politically controlled lands than on those maintained by private corporations. If the free market is short-sighted in its view of the future, then the political process is even more so. It is therefore the free market which best ensures that there will be enough for the future.

Warring Paradigms

The alternative perspectives on environmental policy—free markets and central planning—differ dramatically. One relies upon individual ingenuity and economic liberty to harness the progressive nature of market forces. The other rests upon political manipulation and government coercion. In

point of fact, these approaches are antithetical. There is little hope of developing a “third way.” Yet, there has been little debate on which approach offers the greatest promise in enhancing and protecting environmental concerns. The political approach has been adopted on a wide scale throughout the world, with more failure than success, while efforts to utilize the free market approach have been few and far between.

Nevertheless, there are numerous cases where private property rights have been used to complement and supplement political environmental strategies. One excellent example is a case in England in the 1950s where a fishing club, the Pride of Derby, was able to sue upstream polluters for trespassing against private property. Even the pollution issuing from an upstream municipality was addressed. This ability to go against politically preferred polluters rarely exists where environmental resources are politically managed.

At the heart of the division between statist and free market environmentalists is a difference in moral vision. Free market environmentalists envision a world in which man and the environment live in harmony, each benefiting from interaction with the other. The other view, which dominates the environmental establishment, believes in a form of ecological apartheid whereby man and nature must be separated, thus protecting the environment from human influence. From this view rises the impetus to establish wilderness lands where no humans may tread and a quasi-religious zeal to end all human impact on nature.

Thus, the establishment environmentalists view pollution—human waste—as an evil that must be eliminated. That waste is an inevitable by-product of human existence is of secondary concern. To the environmentalist that endorses this ideology, nothing short of civilization's demise will suffice to protect the earth.

The view that free market environmentalists endorse is somewhat different. Not all waste is pollution, but only that waste which is transferred involuntarily. Thus it is pol-

luting to dispose of garbage on a neighbor's lawn, but not to store it on one's own property. The voluntary transfer of waste, perhaps from an industrialist to the operator of a landfill or recycling facility, is merely another market transaction.

Conclusion

The United Nations Earth Summit considered an extremely important issue: What steps should be taken to ensure that economic and ecological values are harmonized? Unfortunately, the Earth Summit failed to develop such a program, opting instead to further the flawed arguments for ecological central planning.

The world faces a fateful choice as to how to proceed: by expanding the scope of individual action via a system of expanded private property rights and the legal defenses associated with such rights or by expanding the power of the state to protect such values directly. In making that choice, we should learn from history. Much of the world is only now emerging from decades of efforts to advance economic welfare via centralized political means, to improve the welfare of mankind by restricting economic freedom, by expanding the power of the state, to test out the theory that market forces are inadequate to protect the welfare of society. That experiment has been a clear failure on economic, civil liberties, and even ecological grounds. Economic central planning was a utopian dream; it became a real world nightmare.

Today, the international environmental establishment seems eager to repeat this experiment in the ecological sphere, increasing the power of the state, restricting

individual freedom, certain that market forces cannot adequately protect the ecology. Yet, as I've quickly sketched out here, this argument is faulty. Wherever resources have been privately protected, they have done better than their politically managed counterparts—whether we are speaking of elephants in Zimbabwe, salmon streams in England, or beaver in Canada. Where such rights have been absent or suppressed, the results have been less fortunate. Extending property rights to the full array of resources now left undefended, now left as orphans in a world of protected properties, is a daunting challenge. Creative legal arrangements and new technologies will be necessary to protect the oceans and air sheds of the world, but those tasks can be resolved if we apply ourselves. The obstacles to ecological central planning are insurmountable. The need for centralized information and a comprehensive system of controls in order to coerce the population of the world to act in highly restricted ways as well as that for omniscient decision-makers to choose among technologies can never be met.

Ecological central planning cannot protect the environment, but it can destroy our civil and economic liberties. There is too much at stake to allow the world to embark upon this course. The environment can be protected, and the world's peoples can continue to reach new heights of prosperity, but it is essential to realize that political management is not the proper approach. Rather, the leaders of the world should follow the path of the emerging nations of Eastern Europe and embrace political and economic freedom. In the final analysis, the free market is the only system of truly sustainable development. □

ECO-JUSTICE

by Jane M. Orient, M.D.

In a little noticed speech last year, William Reilly, head of the Environmental Protection Agency (EPA), boasted of past success and set the agenda for the future: "George Bush said the polluters would pay if they broke the law and during the past three years the Bush Administration has collected more penalties and sent more violators to jail for longer sentences than in the rest of the EPA's 18-year history combined."

Rioters may be free in Los Angeles, but the Feds are jailing "polluters."

Three men have already served time in federal penitentiary for inadvertent "criminal" violations of wetlands regulations (Ocie Mills, Carrie Mills, and John Pozsgai). The "pollutant" involved was common dirt—the kind found on construction sites and in backyards everywhere.

The fourth person found guilty of crimes against the Earth, Bill Ellen, reported to prison earlier this year. The Department of Justice announced that Ellen's sentence "should send a clear message that environmental criminals will, in fact, go to jail. Those who commit criminal environmental insults will come to learn and appreciate the inside of a federal correctional facility."

But prison cannot serve as a deterrent unless the public learns what behavior is supposed to be deterred. Those who don't want to have to explain to their toddlers why they are going to jail (Bill Ellen has two young sons) had better pay attention to Ellen's crime.

This is what the notorious outlaw did:

1. He accepted a job as a marine and

environmental consultant to oversee the construction of a hunting and conservation preserve. He did so because of his interest in wildlife. For six years, he rehabilitated and returned to the wild nearly 2,000 ducks, geese, loons, egrets, herons, squirrels, songbirds, deer, and other creatures.

2. During the course of the construction, Ellen dared to challenge a bureaucrat's definition of "wetland." He did so because of his contractual obligations, to avoid penalties from the contractors. Ellen argued that the state's head soil scientist, an employee of the Soil Conservation Service, had classified the area in question as an "upland," not a wetland.

3. During the time that the dispute with the bureaucrat was being adjudicated, Ellen allowed his crew to dump *two truckloads of dirt* on the site before shutting down the work completely.

The Supreme Court declined to review the legal aspect of Ellen's case, and he served six months in federal penitentiary for this crime. His wife, Bonnie Ellen, had to do the best she could to shield the children and to keep some aspects of her husband's business going in his absence.

"I have no idea how I can pay all the bills," she said, when her husband was sentenced.

Although he pardoned a number of offenders on Christmas Eve, (including convicted bank robbers and drug dealers), President Bush did not pardon Bill Ellen.

The federal government itself doesn't know what a "wetland" is, and the average citizen has no hope of being able to tell because often a "wetland" looks completely dry.

The most important lesson jailing "eco-criminals" teaches is the necessity for bowing and scraping to the federal bureaucracy, and for the most extreme caution in undertaking any development, even of a wildlife refuge. One mistake, and the bureaucracy has the power to tear the most civic-minded breadwinner away from his family, leaving him to the mercy of the murderers and molesters inside the prison, while his wife and children face a lonely struggle outside. □

Dr. Orient is a physician in private practice in Tucson, Arizona.

PULLING THE PLUG ON THE REA

by Albert R. Bellerue

Franklin D. Roosevelt created the Rural Electrification Administration (REA) as a temporary government agency on May 11, 1935, by issuing Executive Order No. 7037. The Order was authorized by the Emergency Relief Appropriation Act, which was a general program of unemployment relief.

This relief program authorized the immediate spending of \$100 million to help correct the unemployment problems of the '30s. The Order required that 25 percent of these funds should be spent for labor and 90 percent of the labor should be taken from the relief rolls. This requirement nearly stopped the REA in its tracks, because skilled labor was needed to build electric power systems, and sufficient skilled labor could not be found on the relief rolls.

Morris L. Cooke, former director of Public Works for Philadelphia, was appointed the REA administrator May 20, 1935. As it became evident that REA would not qualify as a relief program under the Executive Order, Cooke, in true political style, launched a lobbying program maintaining that the REA would have to be a loan agency instead of a temporary emergency unemployment relief program.

On August 8, 1935, President Roosevelt issued Regulation No. 4 establishing the REA as a lending agency, which freed it from earlier regulations and gave it authority

to make its own exceptions to any other regulations that might restrict it.

Regulation No. 4 transformed a temporary emergency unemployment relief program into a not-for-profit, taxpayer-supported national lending agency—all by Presidential Executive Order.

According to REA publications, the interest rates charged the electric power cooperatives from 1936 to 1952 ranged from two percent to three percent, approximately equal to the cost of Treasury issues. From 1951 to 1971, a period of 20 years, only two percent interest was charged for these REA loans, whereas the Treasury issues rate increased annually to six percent in 1973, when the REA rate was raised to 3.7 percent. In 1981 and 1982 the REA rate averaged about 4.4 percent while the cost of money to the Treasury Department averaged 12.3 percent. From 1983 through 1991, the REA interest charge was slightly less than five percent while the Treasury rate dropped slowly from 10.8 percent to eight percent. Taxpayers have been forced to fund these subsidies for 58 years.

Following is a chart showing comparisons with the going cost of money (Treasury issues rates) and the taxpayer-supported REA loans rates. Treasury borrowing rates did not exceed REA loan rates until 1952.

That REA loan rates equaled the interest rates paid by the U.S. Treasury until 1952 does not mean that the electrification program was unsubsidized during the early

Albert R. Bellerue is a real property analyst and consultant from Gold Canyon, Arizona.

**Interest Rate on REA Loans vs.
Cost of Money to the Government**

Fiscal Year	REA Loans Rate* Percent	Treasury Issues Rate** Percent
1936	3.00	2.530
1940	2.69	2.492
1945	2.00	1.718
1950	2.00	1.958
1955	2.00	2.079
1960	2.00	3.449
1965	2.00	3.800
1970	2.00	5.986
1975	4.42	6.533
1980	4.37	9.608
1985	4.99	10.383
1990	4.97	8.843

*Weighted average for loans approved during the year.

**Source: Monthly Statement of the Public Debt of the United States, Department of the Treasury.

years. The taxpayers were forced to underwrite the additional REA costs for federal management of these loans.

Although there is no need to continue this welfare program for roughly one thousand REA cooperatives, taxpayer support continues. Today, according to the REA, 99 percent of the 2.3 million farms in the U.S.A. have electricity. Since 1949, REA has also been making loans for telephones. Today more than 96 percent have phones.

So, what's keeping Congress from getting the taxpayers out from under this unnecessary burden?

Welfare for the Wealthy

On July 5, 1992, CBS News presented its *60 Minutes* feature "Welfare for the Wealthy" wherein Steve Kroft exposed the most recent Rural Electrification Administration boondoggles, clearly not in the best interests of U.S. taxpayers.

Kroft interviewed Harold Hunter, former REA Administrator, who agreed that the REA was a "boondoggle."

Kroft pointed out that the REA made huge loans to several holding companies such as GTE, Century Telephone, ALL-TELL, and TDS. In addition, REA made

low-interest, taxpayer-subsidized loans to ski resorts in Aspen and Vail, Colorado, and to recharge golf carts in Hilton Head, South Carolina. This is nothing new. It has been going on for 30 years or more, and Congress has known all about it and done nothing to correct it. Kroft also informed his viewers that taxpayers are forced to support REA loans on the island of Saipan in Micronesia. REA, in cooperation with the Agency for International Development (A.I.D.), has organized dozens of cooperatives abroad as part of a foreign aid program.

But what can be done? Jim Miller, former Budget Director; Harold Hunter, former REA Administrator; and Roland Vautour, former Undersecretary of Agriculture, all proposed to Congress that the REA be phased out. Congress has taken no action.

Steve Kroft brought out the fact that one of the reasons no Congressman can be found to clean up this mess and save the taxpayers a billion dollars a year is that the REA co-ops have a powerful political lobby for perpetuation of their welfare program.

The lobbyist is the taxpayer-supported National Rural Electric Cooperative Alliance (NRECA), the powerful national union of REA co-ops. There is no Congressman brave enough to support the taxpayer against this union that can bring some 1,000 co-op members to Washington.

John Becker, former manager of the Wisconsin Development Authority, recalled a conversation he had in the '40s with Robert B. Craig, an REA Administrator and acknowledged father of the NRECA.

Craig told him that in the NRECA, "We will have one million members which means four million votes. Further we will have manufacturers doing millions of dollars worth of business with us, and during the campaign we can raise lots of money for our friends from these sources. . . . [W]ith four million votes and several hundred thousand in campaign funds, we will maintain in public offices enough friends that even the devil himself can't hurt us."

The REA has cost the American taxpayers billions of dollars. Perhaps it's time to pull the plug. □

IN PRAISE OF BILLBOARDS

by Lawrence Person

I recently took a car trip from central Texas to northern Virginia. Though my journey was of an entirely practical nature (two straight days of driving, with no time for sightseeing), it gave me a new appreciation for something I had not really given much thought to: billboards. Despite the scathing criticism heaped upon them for aesthetic reasons, billboards are actually possessed of a number of unsung virtues.

First of all, billboards are a valuable source of information, especially when you're making a long trip through an unfamiliar area. If it's getting near lunchtime, and I see a sign that says "McArches—30 miles," then I have more information on how and when to plan my stops. Likewise, if I am starting to run low on gas, a sign for Texxon might tell me not only how far ahead the station is, but whether it has a mechanic on duty, the best way to get there, and so forth. Finally, if I'm starting to get sleepy, a billboard can tell me how far to the next motel, and what it might be charging for a room. As a consumer, every piece of information I have helps me make better choices.

Some states have a government substitute for billboards: signs with little metal plates bearing the establishment's logo, dis-

tance-to information, and which exit to take. Like most state-owned substitutes, their usefulness falls far short of the real thing. For one thing, these little signs don't tell you the prices of a room for the night, a gallon of unleaded, or a large order of fries. For another, they don't give you all the other information a business might provide on their billboard: *Homebaked Cookies! Air Conditioning! A Toledo Mudhens Collector's Glass with Every Purchase!*

Despite these many virtues, you almost never hear a kindly word for billboards. Critics charge they're "sight pollution," as though they emit cancer-causing agents that infect the body via the optic nerve. These same critics go on to charge that billboards clutter up the natural landscape, and, above all, are inferior to trees.

The poet Ogden Nash wrote:

*I think that I shall never see
A billboard lovely as a tree.
Indeed, unless the billboards fall
I'll never see a tree at all.*

Fair enough. Such critics are, after all, entitled to their opinion. There are a lot of things I might personally label "sight pollution," including those hideous modern art sculptures that seem to spring up like giant metal weeds in front of every government building. Indeed, between the two I much prefer billboards, especially since they weren't constructed using my tax dol-

Mr. Person is former editor of Citizens Agenda. His work has appeared in National Review, Reason, and other magazines.

lars. However, there is a big difference between saying something is ugly and saying that it should be regulated or outlawed.

As far as cluttering up the natural landscape goes, there are a lot of things that do that, including houses, cars, highways, and people, but you don't see special-interest groups trying to legislate *them* out of existence. (OK, a few environmentalists *are* trying to outlaw all of the above, including people. However, since people make up the vast majority of the voting population, they haven't made much progress on this front.) I must admit that I, too, think that the average tree is more attractive than the average billboard. Then again, a tree never told me that I could get three Supertacos for 99 cents either. Also, if my trip is any indication, trees are in no danger of disappearing anytime soon. On the way up they outnumbered billboards at least 10,000 to 1.

Aesthetic differences aside, it shouldn't matter whether a billboard is beautiful or ugly: Both are protected by the right of private property. The idea that someone's property rights should be taken away because a handful (or even a majority) of people deem a particular structure "ugly" is absurd.

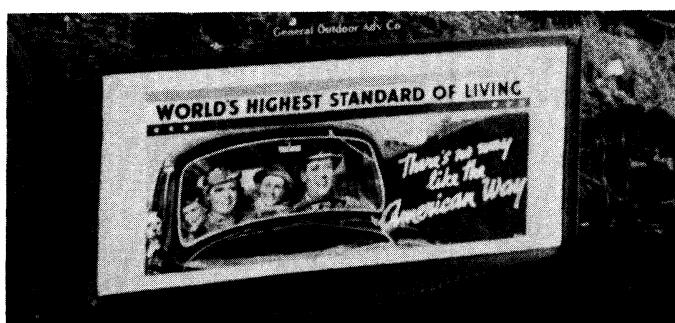
There is a particularly insidious line of reasoning being marshaled by anti-billboard forces these days. "Because billboards are profitable only because they are placed along major public thoroughfares," goes this argument, "the right of private property does not apply, and thus it is well within a government's right to regulate them out of existence." The implications of such reasoning are truly frightening. This same logic applies to every single business that oper-

ates along any public road, and since the overwhelming majority of roads in the United States are government controlled, the scale of government intervention permissible under such a doctrine is staggering.

Indeed, as long as we're going to have the government enforce aesthetic dictates, it is only a small step from regulating the billboards along a road to regulating the cars on it. In the future, we can expect to see the Good Taste Police handing out tickets to those wretched miscreants whose cars need body work or a new paint job. The scourge of automotive sight pollution *must* be driven off our streets, which means no more purple Cadillacs, custom low-riders, jacked-up pickup trucks, or any other vehicle that fails to conform with the new Government Aesthetics Standards.

In addition to property rights, billboards are also protected by another of our basic freedoms: the right to free speech. In Austin, Texas, there used to be a mural billboard that proclaimed: FREE NELSON MANDELA! While this is an overtly political message, commercial messages on billboards are also expressions of that same right to free speech. The First Amendment makes no distinction between commercial and non-commercial speech, and the message "Two McBurgers—\$1.99" should be no less constitutionally protected than "Free Nelson Mandela."

Finally, billboards can be a source of humor. While driving in Tennessee, I saw a billboard for one particular establishment proudly proclaim: FOOD * GAS * ELVIS COLLECTIBLES. Now there's one thing no government sign is ever going to tell me! □



OIL DRILLING IN ALASKA

by Sarah Anderson

A large percentage of the two million barrels of oil produced every day in Alaska comes from an area known as the North Slope. The North Slope is on the eastern end of the north coast of Alaska and consists of mostly coastal plains. There are five oil fields currently in production on the North Slope; the biggest of these is Prudhoe Bay, which is also the largest oil field in North America. Another oil field of particular interest is Endicott, located about ten miles northeast of Prudhoe Bay. Endicott is the first continuous, offshore oil-producing field in the Arctic. The field is in fact two man-made islands that require a ten-mile access road and a five-mile causeway connecting the two islands. The other three fields are Kuparek, Lisburne, and Milne Point.

The Prudhoe Bay field encompasses 5,000 acres, and Endicott, the sixth largest oil field in North America, encompasses only 55 acres. It is possible for oil fields to be small because the oil wells themselves are only ten feet square. They are placed immediately next to one another.

The oil is not pumped from the wells but, when the reserve is tapped, the oil flows out under natural pressure. This means that the wells are not only small, but quiet. Modern technology has made it possible to build the oil fields on gravel pads that make a solid foundation for the equipment and insulate the underlying permafrost. Previously, oil

drilling pads had to be big enough to accommodate many reserve pits to hold the waste water and mud from drilling. Now, however, a new technique of pumping the wastes back into the ground eliminates the waste of space, maintains a sub-surface pressure high enough to keep oil flowing, and reduces the possibility of spills on the tundra. If oil is not found directly beneath the well location, the well can be drilled horizontally, again reducing the area of land affected by the oil development.

When the 800-mile trans-Alaskan pipeline was built, temporary access roads were required for construction and maintenance. A breakthrough in road technology has eliminated the need for these gravel roads that leave an impact on the environment. Ocean water is pumped onto the tundra where it freezes to form an ice road from which maintenance can be done during the winter. In the summer these roads melt and leave no trace. Vehicles with huge rubber tires use the roads. Ice roads are also used for oil exploration.

There has long been a controversy between environmentalists and oil companies over whether to allow oil drilling in the Arctic National Wildlife Refuge, commonly referred to as ANWR. To put the size of the ANWR in perspective, keep in mind that Alaska contains 591,000 square miles, or about 378,000,000 acres. The ANWR is five percent of Alaska or 19 million acres. Of these acres, eight percent have been proposed for development, and only one percent would be affected by oil production.

Sarah Anderson is a 14-year-old residing in Bozeman, Montana.

This means that about 15,000 acres, or .004 percent of Alaska, would be affected. Actual production facilities including roads, drilling pads, living quarters, and pipelines would cover a thousand acres.

At Prudhoe Bay the vast majority of oil spills are small and never leave the gravel pads. All spills are promptly reported to government agencies and thoroughly cleaned up. There are about 250 spills each year, which sounds terrible, but a "spill" includes a single drop of oil. By this standard the average parking lot has more oil spills than that each year. Of those 250 spills, nearly half are zero-to five-gallon spills that never leave the gravel pad. The contaminated gravel is all scooped up and taken to an incinerator where the oil is burned off.

Environmentalists claim that oil drilling affects the wildlife; however, if the drill sites are any indication, most animal populations are not affected or their numbers have risen. Caribou numbers, for example, grew from 3,000 at the beginning of Prudhoe development to 5,500 at the end of development. From there the population steadily increased to its present number of 20,000 animals. A group of about 100 caribou usually winters in the Prudhoe area. The oil producing companies have taken great care to elevate the pipeline or build ramps over it for caribou migration. The only snow goose colony in the United States has also steadily increased from 50 to 180 nests.

Sometimes the oil companies are forced to use expensive means for environmental protection with questionable results. British Petroleum, the company drilling from the Endicott oil field, has been forced to install two breaches in the causeway because environmentalists felt that the Arctic cisco, a fish that spawns in nearby rivers, would not be able to reach them. It seems that many of the fish go around the causeway anyway, but British Petroleum has been very cooperative in trying to reduce the impact on the environment. Even the buildings on Endicott were assembled in Louisiana and then transported whole on a barge all the way to Alaska.

Oil drilling companies take great care to

clean up and revegetate the areas they use. Parts of gravel pads that are not needed anymore are manually shoveled or raked up to reduce damage to the underlying vegetation. Studies have been done on what types of grasses to use to revegetate an area and the oil companies take pride in bringing the tundra back to its original state.

In spite of the fact that environmental effects have been minimal and the amount of land affected is small, environmental groups such as the Audubon Society still strongly oppose drilling in the ANWR. To understand why, consider the following story. In the mid-1970s, oil companies came to the Audubon Society for permission to drill on the Society's Rainey Preserve. They got an emphatic "No!" The oil companies persisted, offering approximately \$2,000,000 a year in royalties. Unsure of the environmental consequences of the drilling, the Audubon Society demanded slant drilling with pads placed outside sensitive areas. The oil companies agreed. The Society demanded expensive, quiet mufflers. The oil companies agreed. The Society required that the oil companies move out during certain times of the year. The oil companies again agreed. As the *Audubon* magazine put it, "There was this timeclock, and when the cranes punched in, the hardhats would have to punch out."

Why the cooperation in the Rainey Preserve but not in the ANWR? Clearly the Audubon Society has a lot to gain from the drilling in the Rainey Preserve, but nothing in the ANWR. The Audubon Society can control what the oil companies do on their own preserves. On the other hand, they have no control over the oil companies when they drill on public land.

On privately owned property, both economic development and protection for the environment can be achieved through negotiation. But in property owned by the government, such negotiation is extremely difficult. Most of the land area in Alaska is locked up by government ownership. To assure that it is both developed and protected, we should consider transferring it to private owners. □

BOOKS

Earth in the Balance

by Al Gore

Boston: Houghton Mifflin, 1992 • 407 pages • \$22.95

Reviewed by Jim Russell

I confess that my mind was too closed to political rhetoric, and my wallet too thinned by involuntary taxation to fork over nearly twenty-three dollars to a then-member of the wealthiest club in America—the U.S. Senate—for a book. My daughter, however, a recently crowned lawyer, purchased Al Gore's *Earth in the Balance* with the reckless abandon of the *nouveau riche*, and gave it to me for my birthday, along with a comment that the author was a man of brilliant intellect, and a pointed remark that "Not all things are subject to economic analysis."

I rightly deduced from that remark what was in store for me, but I read the book anyway because I dearly love my daughter. (She is, regardless of weird ideas on political economy acquired at expensive schools that don't teach classical economics, the best daughter ever entrusted to the blundering care of an unworthy father.) I only read Gore's book because my darling Jenny gave it to me, but I'm glad now that I did.

If I could have but two books to read the rest of my life, one would be the Bible and the other would be Austrian economist Ludwig von Mises' *magnus opus*, *Human Action*. I'd choose the Bible to enlighten me on spiritual matters; *Human Action* on matters economic. Together, these two books can save me from brilliant intellects.

Gore professes to be a Christian. "I am a Baptist," he says. But thanks to Matthew, Mark, and Mises, I am not deceived by Al Gore. I deduce from his book and his voting record in the United States Senate that Vice President Gore is a devout practitioner of statolatry. "The state," wrote Mises, who

coined *statolatry*, "[that] new deity of the dawning age of statolatry, [that] eternal and superhuman institution beyond the reach of human frailties." Jesus said, "Be on your guard against false prophets. . . . You will know them by their deeds" (Matthew 7:15–16).

Gore's votes in the Senate, his deeds, so to speak, by which Jesus said we could know him, reveal much. This is a man who never met a government spending initiative he couldn't approve. The National Taxpayers Union has ranked Senator Gore as the Senate's leading tax-and-spender for the last two years.

Although the author laboriously denies it, *Earth in the Balance* is a cunning warrant for the establishment of the equivalent of world government through "a framework of global agreements that *oblige* all nations to act in concert." Gore proposes a "Global Marshall Plan" incorporating broad governmental powers to save the environment, forcibly taxing and regulating people's lives and restraining individual liberty in the process. A clever polemicist, Gore never refers to the unique attribute of government that imparts to it the illusion of being beyond human frailties: its monopoly on the use of force.

Mises, on the other hand, bluntly depicts the state as "the social apparatus of coercion and compulsion" whose role is "to beat people into submission" to its dictates. Jesus of Nazareth preached the futility of relying on force in the conduct of human affairs, and he taught us how to do without it.

Gore disarmingly argues that resolving the "global ecological crisis" caused by "humankind's assault on the earth" is essentially a spiritual challenge. Whether his moralizing on man's spiritual inadequacies is sincere or sanctimonious, the recommendations embodied in his Global Marshall Plan are entirely material and amenable to economic analysis.

Gore establishes the reality of a crisis primarily by the rhetorical devices of incessant incantation and vivid metaphor. He repetitiously refers to a "grave crisis," "environmental crisis," "ungodly crisis," "deep crisis," "population explosion,"

"catastrophe at hand," "catastrophe in the making," "crumbling ecological system," "ravenous civilization," "destruction of the earth's surface," "garbage imperialism," "destructive cycle," "rapidly emerging dilemma," and "ecological holocaust."

Gore's *Earth in the Balance* indictcs classical economics and laissez-faire capitalism for the problem of environmental degradation. Why? Because if classical economics can be discredited, environmentalists can safely ignore the economists who warn that their utopian plans won't work.

Gore pledges to reform his insatiable spending habit. But his sincerity is suspect, for he renounces only one ecologically disastrous government program among the multitude he has long supported. "I myself," he confesses, "have supported sugar price supports and—until now—have always voted for them without appreciating the full consequence [in damage to the environment] of my vote. . . . I have followed the general rule that I will vote for the established farm programs of others in farm states . . . in return for their votes on behalf of the ones important to my state. . . . But change is possible: I, for one, have decided as I write this book that I can no longer vote in favor of sugarcane subsidies." Hallelujah! A vote-trading, tax-and-spend junkie is willing to skip one little agricultural fix in order to overdose on a kilo of environmentally correct spending.

Although Gore pays lip service to the contributions of economics and praises laissez-faire capitalism faintly, their demise is his ultimate objective. He endorses "modified free markets." Of course a slave is a person whose freedom has been modified merely by the addition of shackles. As classical economist Frederic Bastiat pointed out, one cannot be both free and not free at the same time.

Throughout *Earth in the Balance*, Gore confuses economics (a science) with capitalism (a social system), statistics, and accounting. His problems with semantics are not inconsequential and should not necessarily be attributed to ignorance. Mises warned us in *Human Action* that faulty

nomenclature becomes understandable if we realize that pseudo-economists and the politicians who apply it want to prevent people from knowing what the market economy really is. They want to make people believe that all the repulsive manifestations of restrictive government policies are produced by "capitalism." Blaming economics for environmental degradation, is akin to blaming mathematics for the size of the federal deficit.

In *Human Action* Mises identified two primary causes of environmental degradation; namely, the failure of legislators to fully implement private-property rights; and the propensity of government to limit the liability and indemnification that would otherwise be imposed by the common law on the owners of property. If there is a "global ecological crisis," and if it is the product of "humankind's assault on the earth," the science of human action is the only branch of human knowledge capable of understanding the problem, which is a prerequisite to avoiding an "ecological holocaust."

Years before Rachel Carson launched the modern environmental movement with the publication of *Silent Spring* in 1962, Ludwig von Mises had considered the problem of mankind's abuse of his environment, identified the etiology of environmental degradation, and prescribed the only practical defense against "humankind's assault on the earth." If Al Gore sincerely cared about the environment he would repudiate his plan to spend vast sums of other people's money and embrace classical economics and laissez-faire capitalism as the keys to environmental salvation.

Preservation of Earth cannot be entrusted to any government—not the U.S., not the U.N., nor to any supranational coalition. To put the matter in perspective: Would you trust the people who gave you the post office, the House Bank scandal, the savings and loan debacle, and the national debt with the survival of the human race?

If Earth is in the balance, let us not entrust it to the wisdom of governments. □

Environmental Politics: Public Costs, Private Rewards

Edited by Michael S. Greve and Fred L. Smith, Jr.

Praeger Publishers, 1992 • 212 pages • \$19.95

Reviewed by Brian Doherty

The old rationales for central control of the economy have suffered a crippling blow at the hands of history and economic logic. Socialism has proven neither more rational, more efficient, nor more humane than the free market. But could it be more environmentally sound?

This book is edited by Michael S. Greve, the founder and executive director of the Center for Individual Rights, a public interest law firm, and Fred L. Smith, Jr., the founder and president of the Competitive Enterprise Institute (CEI), a free market think tank. It attempts to lay the groundwork for a scholarly and accessible literature that makes the case that environmental command-and-control policies, even when planned with the best of intentions, are still just a road to serfdom, only paved with green bricks, to use Smith's apposite phrase. The book's contributors include Jonathan H. Adler and Christopher L. Culp of CEI, Marc K. Landy and Mary Hague of Boston College, Daniel F. McInnis of Georgetown University, R. Shep Melnick of Brandeis University, and David Vogel of the University of California at Berkeley. The writers are not all sympathetic to a totally free market approach, but all of them are keen analysts of the problems associated with centralized environmental planning.

There are legal hurdles in the way of sane environmental policy as well as political ones, even though all of its authors don't seem to grasp the most sensible and fair solution. The chapter by political scientists Marc Landy and Mary Hague examines the workings of Superfund, a program designed to clean up abandoned waste dumps. The cost was supposed to be borne by the polluter, which seems sensible and just.

Unfortunately, the Superfund "polluter

pays" principle, in which liability is "strict, joint and several, and retroactive" has led to runaway tort problems where anyone with deep pockets who has any sort of connection, however tenuous, to a site (including "prior owners, users, bankers, insurers, waste generators, and transporters") can be held liable for the entire cleanup cost, even if the site adhered to all legal and known scientific standards at the time. So Superfund cleanup attempts are generally kept tied up in court for years as any party held liable tries to drag as many other associated parties as possible into the liability process. This leads Landy and Hague to the mistaken conclusion that "clearly, it would be fairer and more efficient to simply pay for cleanup from public funds."

But political and legal interference with free markets is not the only problem with the current state of environmental policy. When attempting to regulate "the environment," there are often no markets to corrupt. You can have a market only when there is property to be bought and sold, and air and water pollution involve invasive actions on individuals being performed through an "unowned" medium, a "public good."

The book's final chapter by Fred Smith shines an exploratory light toward an intellectual and political revolution in environmental law that would extend markets and private, voluntary arrangements to even the trickiest of pollution problems.

Smith admits the existence of problems with "tort law which . . . has been almost completely socialized," where "courts often award compensation to parties who have suffered no demonstrable damages while imposing liability on parties who have caused no harm." But the solution lies in the innovations that property rights and markets give incentive to create, not central governmental management. Smith points out that such innovations as fences, locks, fingerprinting, and burglar alarms only developed because of private property rights, and he hypothesizes the development of technologies that would make applying the property paradigm to currently "unowned" resources like endangered species, air, and

water possible. Particularly intriguing is his notion of "chemical fingerprinting, which could identify the culprits responsible for oil spills and toxic dumping."

Neither Smith nor the reader is able to imagine beforehand all the various mechanisms and benefits that would develop spontaneously if we were to try to extend property rights over the current "public" goods of the environment. But *Environmental Politics: Public Costs, Private Rewards* makes clear that ceding all attempts at ending environmental degradation and managing environmental concerns to the government leads to private gain at public expense, and, too often, at the expense of environmental quality. □

Brian Doherty is assistant editor of Regulation magazine.

will double during the next century, he attempts to investigate dispassionately the likely effects. These effects appear to be of a smaller magnitude than many headline-grabbing visions of apocalypse have implied. Further, it is not at all clear that the impacts would, on balance, be negative.

For starters, the global warming experienced since the beginnings of industrialization is less than would have been predicted by the same models that are now being used to predict future disaster. This suggests that the link between CO₂ and climate is more complex than many doomsayers acknowledge. Taking this historical record into account, the most probable increase in global temperature over the next century is less than two degrees Fahrenheit. This will not be sufficient to melt polar ice caps and inundate coastal cities as many have feared.

Most of the temperature rise will occur at night, during the winter, and at higher latitudes. In many ways, this pattern of warming would actually be beneficial. The increase in nighttime temperatures will reduce the spread between daily high and low temperatures. This decreases thermal stress on vegetation. Plants would be more likely to survive and thrive under such conditions. This would mean a longer frost-free growing season in many locations. A correspondingly larger agricultural output could be expected. This would lower the cost of food and fiber, mitigating poverty for large segments of the world's population.

It seems more likely that further economic progress would hold forth more hope for averting environmental disaster. It is progress that has improved energy efficiency. It is progress that is enabling improved communication of information.

If the economic growth that naturally flows from economic freedom can continue to fuel technology, the next couple of generations of human beings will probably have many more attractive options for dealing with the world they inherit. □

The Heated Debate: Greenhouse Predictions vs. Climate Reality

by Robert C. Balling

Pacific Research Institute, 177 Post St., San Francisco, CA 94108 • 1992 • 250 pages • \$21.95 cloth, \$14.95 paper

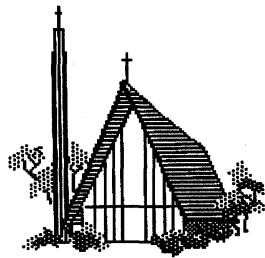
Reviewed by John Semmens

Industrialization has allegedly led to increased levels of carbon dioxide (CO₂) from combustion of fossil fuels. Higher amounts of CO₂ have purportedly raised global temperatures. Warmer weather could generate significant changes in our climate. The perception that those changes would be a disaster for the planet has inspired demands for drastic remedies. An example is Vice President Albert Gore's call for a phaseout of the internal combustion engine over the next few decades. Even more desperate are demands that the Industrial Revolution be reversed and mankind returned to a pre-industrial agricultural mode of life.

The author of this book suggests that the call for drastic action is at best premature. Without challenging the premise that CO₂

John Semmens has been a frequent contributor to The Freeman.

If there's moral validity to free-market economics, why do so many clergy fail to understand it?



A study of theological and seminary faculty conducted by the Roper Center in 1982 revealed that 37% of the respondents felt "the United States would be better off if it moved toward socialism." Nearly half of them favored the redistribution of wealth (as opposed to its creation) as a better way to meet the needs of the poor.

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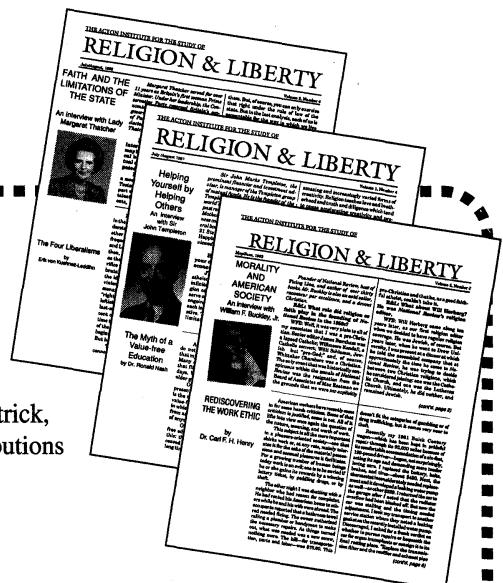
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OCTOBER
1993
VOL. 43
NO. 10

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

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Editors: John Chamberlain
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Clarence B. Carson, Ph.D.
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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$25.00 or more receive a subscription to *The Freeman*. Student subscriptions are \$10.00 for the nine-month academic year; \$5.00 per semester. Additional copies of single issues of *The Freeman* are \$2.00. For foreign delivery, a donation of \$40.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available on microfilm and CD-ROM from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. A computer diskette containing the articles from this month's issue is available from FEE for \$10.00; specify either 3½" or 5¼" format.

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PERSPECTIVE

Prison Costs

Prison operating costs in New York State have risen by 148 percent since 1983, while the number of inmates has increased only 93 percent. It is estimated that the state's prison population will grow from the current 54,900 to 74,400 by the year 2000.

Annual operating costs in New York are \$24,173 per inmate.

—EXECUTIVE ALERT

The Importance of Self-Government

I asked my family one evening when we were all gathered in the living room, "What is the first thing that comes into your mind when I say the word *government*?"

The responses? "The United States of America and its people." "Bill Clinton." "The White House." "A group of men."

Most of us, I think, would have answered in a similar way. The first thing that comes into our minds is civil government. But our minds are different from the minds of earlier Americans. In the first chapter of his book *God and Government*, Gary Demar does an excellent job of pointing out how. In 1828, Noah Webster defined *government* in terms of personal self-control: "Direction, regulation. 'These precepts will serve for the government of our conduct.' Control, restraint. 'Men are apt to neglect the government of their temper and passions.'"

Prior to World War I, textbooks dealing with national government were qualified with the title "civics," indicating their awareness that there were personal, family, church, school, and civil governments, each with its own legitimate sphere of authority. Webster's 1828 definition went on to include family government before he dealt with government on the state or national level. The fact that modern dictionaries list civil government first indicates how much our thinking has changed.

—MARTY MATTOCKS

A Political Harvest

Another effect of public instability is the unreasonable advantage it gives to the sagacious, the enterprising, and the moneyed few over the industrious and uninformed mass of the people. Every new regulation concerning commerce or revenue, or in any manner affecting the value of the different species of property, presents a new harvest to those who watch the change, and can trace its consequences; a harvest, reared not by themselves, but by the toils and cares of the great body of their fellow citizens. This is a state of things in which it may be said with some truth that laws are made for the few, not for the many.

—*The Federalist*

The Sins of the Intellectuals

The intellectual leaders of the peoples have produced and propagated the fallacies which are on the point of destroying liberty and Western civilization. The intellectuals alone are responsible for the mass slayings which are the characteristic mark of our century. They alone can reverse the trend and pave the way for a resurrection of freedom.

—LUDWIG VON MISES

Capitalism

The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of nature's forces to man, machinery, application of chemistry to industry and agriculture, steam cultivation,

canalization of rivers, whole populations conjured out of the ground—what earlier century had even a presentiment that such productive forces slumbered in the lap of social labor?

—KARL MARX

Economic Control

Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends.

—F. A. HAYEK

The Wisdom of Henry Hazlitt

The socialists and communists propose to cure poverty by seizing private property, particularly property in the means of production, and turning it over to be operated by the government.

What the advocates of all expropriation schemes fail to realize is that property in private hands used for the production of goods and services for the market is already for all practical purposes public wealth. It is serving the public just as much as—in fact, far more effectively than—if it were owned and operated by the government.

—HENRY HAZLITT (1894-1993)
“Private Property, Public Purpose”

A memorial service for Mr. Hazlitt was held at The Foundation for Economic Education on August 4, 1993. Edmund A. Opitz, Bettina Bien Greaves, Hans F. Sennholz, George F. McKendry, and Andrea Rich shared reflections on Mr. Hazlitt's character, intelligence, and dedication to the cause of liberty.

THE ECONOMIC WAY OF THINKING

PART 1

by Ronald Nash

This is the first of an eight-part series designed to introduce the general reader to economics. None of these essays will contain a single graph or make any use of complex equations or higher mathematics. These essays will explain fundamental economic principles in plain language that anyone will be able to understand. This first essay in the series will introduce the reader to economic thinking through the following steps: (1) I will offer a definition of the term *economics*; (2) I will explain two fundamental economic concepts, *scarcity* and *choice*; (3) I will relate scarcity and choice to the way in which every human being unavoidably ranks his options; and (4) I will discuss the difference between free goods and economic goods.

What Is Economics?

It is a mistake to think that economics deals only with the making, spending, saving, and investing of money or with the

creation, development, and management of wealth. Economics covers a much larger territory. Economics is best understood as the study or systematic investigation of the principles of *human action*.

To understand the meaning of the term *human action*, it is helpful to contrast different types of things humans do. All of us know what it is to sneeze, yawn, or hiccup. These are *not* instances of human action. When someone sneezes, yawns, or hiccups, what he does is not a result of some decision or act of will. Sneezes, yawns, and hiccups are spontaneous, unwilling, and unplanned acts. “Human action” refers to actions resulting from an intention or choice.

Consider what happens when someone—an actor in a play—*pretends* to sneeze, yawn, or hiccup. In every such instance, the person decides to sneeze or makes a decision to act as though he is yawning. In such cases, his act *is* a human action, because it is the result of his intention or choice. While economics is not typically concerned with unwilling acts like blinking one’s eyes, it is interested in all conscious, human behavior that results from thought, planning, intention, and decision. If I decide to have dinner in an Italian restaurant, that is an example of a human action. What my digestive system does with

Dr. Nash is a Contributing Editor of The Freeman and Professor of Philosophy and Theology at Reformed Theological Seminary in Orlando. He is the author or editor of 25 books including Poverty and Wealth (Probe Books) and Beyond Liberation Theology (Baker Books).

that food after I swallow it is not. That is not specifically a human action.

Scarcity and Choice

To get more specific, economics studies the choices human beings make with regard to scarce resources. If there is any such thing as bedrock in economics, it rests in these two fundamental concepts: scarcity and choice.

Scarcity is an unavoidable feature of human existence. Since human wants and desires are always greater than the resources available, we can never have everything we want. Therefore, human beings have to rank their alternatives to satisfy those wants—first choice, second choice, and so forth, and make choices among their available options. The human actions that are the subject of economics are conscious human choices with regard to individual goals.

Each Individual's Personal Scale of Values

One of the first mistakes many people make when thinking about economics is assuming that it is only the scarcity of *money* that counts in economics. Economic decisions may have little to do with money. Imagine a very busy person faced with many demands on his time. Suppose further that this person is given the opportunity to do several new things that he regards as more important than some of his other tasks. Since this person can only do so much in the time available to him, he begins to rank his options. He then uses his scarce time to pursue those goals that he has ranked highest. In this example, the person is engaged in a typically economical activity, even though his primary focus has little to do with money. Because of scarcity (in this case, scarcity of time), he has been forced to make conscious choices.

Sometimes choices between competing alternatives involve a trade-off between time and money. Suppose I want to buy tickets to an important baseball game that

50,000 people want to attend. I have two choices: I can either spend hours in a long line waiting to buy the tickets myself for \$15 each; or I could pay someone else to stand in line for me, in which case the tickets would cost \$25 each. If I value my time more than the extra \$10, I would select option two. If I value the \$10 more than the time required to wait in line, I'll choose the first option.

The attainment of any goal involves some cost. But it is a mistake to think of cost exclusively in terms of money. The cost of achieving some goal might include physical pain or a sacrifice of time and effort that might have brought me other goods. The cost I incur to attain any good is the next most valuable good that my money, time, and effort might have secured.

Economic Goods

The word *good* is used in a number of different ways. In economics, the word refers to anything that some human being desires or values. If some person prefers having more of some thing to a situation in which he has less, that thing for him is a good. The term *good* is not used in a moral sense in economics. Some people fail to distinguish the fact that some person desires something from the quite different question of whether that thing is desirable. When we say that *something is desired*, we are reporting what is the case. When we say that *something is desirable*, we are prescribing what ought to be the case. Statements about whether or not something is desirable are normative claims, not descriptive statements.

Failure to note that the word *good* is sometimes used with reference to what people do as a matter of fact desire—even when that thing perhaps ought not to be desired—can produce some confusion. Sometimes economists describe the fact that someone desires or wants something or regards that thing as a good by saying that for such a person, the item has *utility*. It should be remembered that when an economist says that something is a good or has

utility (in this economic sense), all he means is that someone wants it, desires it, or values it. To say that something is a good (in this economic sense) does not imply that it is the sort of thing that the person ought to want.

Economists contrast *economic goods* with what they call *free goods*. A free good is something which can be obtained without any sacrifice. In more technical language, a free good is one that humans can obtain in quantities sufficient to satisfy their wants at a zero price. A free good is so readily available by nature that its quantity supplied exceeds quantity demanded. There is more than enough to go around, to satisfy the quantity demanded. An example of a free good might be fresh air in the country.

It is important to distinguish between *demand* and *quantity demanded*. The word *demand* refers to a relationship that economic texts indicate by a curve showing the different quantities of some good or service that buyers will freely purchase at different prices, other things being equal. *Quantity demanded* is a specific point on that curve; it is a specific quantity that buyers will demand at a specific price. A similar distinction must be made between *supply* (another relationship indicated by a curve) and *quantity supplied*, a specific point or value on the curve. *Demand* and *supply* always refer to a schedule, not to a single quantity.

In contrast to free goods, economic goods are characterized by scarcity. Something is scarce if people want more of it than they can freely have. An economic good is one that humans cannot obtain in quantities sufficient to satisfy their wants at a zero price. Because quantity demanded exceeds quantity supplied, an economic good always costs something. In order to obtain a quantity of any economic good, something else must be sacrificed. For people who live next to an unpolluted lake, water might be a free good. But for someone traveling through a hot desert, water (because of its scarcity) is an economic good. In fact, it is not difficult

to imagine circumstances in which water might become so desired that a thirsty person faced with the prospect of dying might be willing to sacrifice almost anything to secure some. In most cases, air is a free good. But for people living in an area where the air is polluted, clean air might become an economic good for which they would be willing to make some sacrifice or pay some price.

Economists point out that both free goods and economic goods possess utility. People place a value on air; it just happens that in most cases, the quantity of breathable air supplied exceeds the quantity demanded. But things may be valued in two different ways. Some things like air and water are very valuable *in use*, but usually have no value *in trade*. Diamonds have a great deal of value in trade, but less value in use. Economic value is always in the eye of the beholder.

Conclusion

In this first of a series of essays on the economic way of thinking, I have defined economics as the basic study of human action, that is, of conscious, purposeful human behavior. I have identified the two main elements in any economic study as scarcity and choice. The unavoidable presence of scarcity in human life forces human beings to rank their available options and make conscious choices among those alternatives. I have also explained the important difference between free goods and economic goods. Because they are available in such abundance, free goods involve no costs and require no choices. But every economic good that has standing in our personal scales of values will necessarily be an object of valuation and choice. The conscious pursuit of goals leads humans to exchange things they desire less (such as time or money or some possession) for things they desire more. □

BANKING WITHOUT REGULATION

by Lawrence H. White

How well would the banking system work if there were no government regulation? One way to begin answering this question is to examine the historical record. In the nineteenth century many countries had relatively unregulated banking systems with few or none of the restrictions that face American banks today: legal barriers to new entry, deposit insurance, geographic and activity restrictions, reserve requirements, and protection of favored banks from failure. Because these systems were so different from today's, they throw valuable light on the possible consequences of completely deregulating banking in the future.

A useful source of historical information is the recently published volume entitled *The Experience of Free Banking*, edited by Kevin Dowd (London: Routledge, 1992). The book's contributors (of which I am one) investigate relatively unregulated banking systems in nine different countries during the nineteenth century: Australia, Canada, Colombia, China, France, Ireland, Scotland, Switzerland, and the United States. An overview chapter by Kurt Schuler shows that there were another fifty episodes that might also be investigated in detail. Fresh historical evidence, of the sort provided in this book, usefully complements the several other studies of free-market money and

banking that have been published in recent years.¹

Three Lessons from History

What can we learn from historical episodes of relatively unregulated banking? I will try to summarize three main lessons concisely, without all the details, footnotes, and minor qualifications that might be mentioned. I hope my fellow academics will forgive me for breaching our professional etiquette in this way.

First lesson: Unregulated banking does not cause inflation of the money supply or of prices.

Because reserve requirements constrain banks today, economists have sometimes feared that banks without reserve requirements will face no constraint against oversupplying checking deposits or banknotes. But the fear is historically groundless. A competitive market compels unregulated banks to fix the value of their deposit and note liabilities in terms of the economy's basic money, by offering redeemability at par (full face value) in basic money. In the past, the basic money was gold or silver coins. The "dollar" was originally a silver coin. To avoid embarrassment, in the absence of government protection, a bank could not issue too many liabilities in relation to its reserves of metallic money.

Under redeemability, the value of money

Dr. White, Associate Professor of Economics at the University of Georgia, is a Contributing Editor of The Freeman.

falls (price inflation occurs) only when the supply of the economy's basic money grows faster than the real demand for basic money. Under the gold and silver standards of the nineteenth century, inflation of prices in any single year was minimal by modern standards. Over the long run of generations, price inflation was virtually zero.

Second lesson: Unregulated competition among banks does not destabilize the banking system.

Instability is often the fear of those who think that "free banking" laws in some parts of the antebellum United States led to irresponsible or "wildcat" banking. It turns out that "wildcat" banking is largely a myth. Although stories about crooked banking practices are entertaining—and for that reason have been repeated endlessly by textbooks—modern economic historians have found that there were in fact very few banks that fit any reasonable definition of "wildcat bank." For example, of 141 banks formed under the "free banking" law in Illinois between 1851 and 1861, *only one* meets the criteria of lasting less than a year, being set up specifically to profit from note issue, and operating from a remote location.²

The so-called "free banking" systems in a number of antebellum American states were actually among the most regulated of all the nineteenth-century systems of competitive note-issue. Instability was experienced in a few states, not due to wildcat banking, but due to state regulations that inadvertently promoted instability. "Free banking" regulations in some states made it easier to commit fraud; in other states the regulations discouraged or prevented banks from properly diversifying their assets. Banking was more stable in the less regulated systems of Canada, Scotland, and New England.

How was stability possible in banking systems with neither deposit guarantees (nothing like FDIC insurance) nor a government lender of last resort (nothing like the Federal Reserve)? Depositors were more careful in choosing banks, and banks correspondingly, in order to attract cautious customers, had to be more careful in choos-

ing their asset portfolios than banks are today in the presence of deposit guarantees and a lender of last resort. Banks did sometimes fail. But bank failures were almost never contagious, or prone to spread to sound banks, for several reasons. Each bank tried to maintain an identity distinct from its rivals, and was able to do so when it was not compelled by any regulation to hold a similar asset portfolio. Depositors then had no reason to infer from troubles at one bank that the next bank was in trouble. Banks were generally well capitalized, so that fear of insolvency was remote. In some cases banks had extra capital "off the balance sheet" in the sense that shareholders contractually bound themselves to dig into their own personal assets to repay depositors and noteholders in the event that the bank's assets were insufficient. Banks diversified their assets and liabilities well, being free of line-of-business and activity restrictions.

Banks were careful to avoid excessive exposure to other banks, which means that they minimized the risk of being stuck with uncollectible claims on other banks. Some degree of exposure is unavoidable in any system in which a bank accepts deposits from its customers in the form of checks written on, or notes issued by, certain other banks. A bank has exposure until it clears and settles those claims through the clearinghouse. Private clearinghouses, particularly in the late nineteenth-century United States, lowered the risks of interbank exposure by making banks meet strict solvency and liquidity standards for clearinghouse membership. Clearinghouses were a vehicle by which reputable banks as a group voluntary regulated themselves. Clearinghouse associations pioneered techniques for monitoring and enforcing solvency and liquidity, such as balance sheet reports and bank examinations. Clearinghouse associations also did some "last resort" lending to solvent member banks that were experiencing temporary liquidity problems. The Federal Reserve System did not introduce but simply nationalized bank regulation and the lender-of-last-resort role.

Third lesson: Banking is not a natural monopoly.

Historical experience shows that there are some tendencies for larger banks to be more efficient, but not beyond a certain size. Nationally branched banks do tend to out-compete smaller banks in many areas of the banking business, but not in all areas. Banks must be large enough to diversify their assets and liabilities adequately, but this does not require being large relative to the entire banking market. Recent developments in the financial technologies of loan syndication and securitization may have reduced the size at which a bank becomes large enough in this respect. In the absence of government regulations that currently favor the largest banks, particularly the pursuit of the "too big to fail" doctrine by the Federal Reserve and the Federal De-

posit Insurance Corporation, a stable and deregulated financial structure would result that would likely include both large and small banks. □

1. Hans Sennholz, *Money and Freedom* (Spring Mills, Pa.: Libertarian Press, 1985); Kevin Dowd, *Private Money: The Path to Monetary Stability* (London: Institute of Economic Affairs, 1988); George A. Selgin, *The Theory of Free Banking* (Totowa, N.J.: Rowman and Littlefield, 1988); Kevin Dowd, *The State and the Monetary System* (New York: Philip Allan, 1989); David Glasner, *Free Banking and Monetary Reform* (Cambridge: Cambridge University Press, 1989); Lawrence H. White, *Competition and Currency* (New York: New York University Press, 1989); Richard Salsman, *Breaking the Banks: Central Banking Problems and Free Banking Solutions* (Great Barrington, Mass.: American Institute for Economic Research, 1990); Steven Horwitz, *Monetary Evolution, Free Banking, and Economic Order* (Boulder, Colo.: Westview Press, 1992).

2. This statistic, from a study by Andrew J. Economopoulos, is cited by Kevin Dowd, "U. S. Banking in the 'Free Banking' Period," in Dowd, ed., *The Experience of Free Banking* (London: Routledge, 1992), p. 218. Pioneering modern work on the U. S. experience with "free banking" laws, which is the source for the information in the next paragraph of the text, has been done by Hugh Rockoff and by Arthur J. Rolnick and Warren E. Weber.

TOWARD A CASHLESS SOCIETY

by Elizabeth Kolar

The financial system of today's world is the product of centuries of innovation. What began as a barter economy moved through various incarnations in response to the limitations inherent in the evolving systems. Changes will undoubtedly continue to occur in response to social and technological progress. Contemporary discussion of likely changes has focused increasingly on the possibility of a cashless society. The

technology for such a society exists. However, the benefits of cashlessness are not yet perceived to outweigh the supposed disadvantages.

This article will discuss the progress toward cashlessness and its relevance to free banking. Free banking historically involved the issuance of bank notes that were redeemable for a "base" money such as gold or silver. Modern proponents of free banking such as Lawrence White have continued to think of it in these terms. White's colleague at the University of Georgia, George

Selgin, has, on the other hand, envisioned a regime under which the existing (U.S. dollar) monetary base would be frozen, and banks could then issue notes that would be exchangeable for base dollars. Both writers apparently envision a society that will continue to use currency and coin as pervasive media of exchange.

A cashless society would mean, of course, the absence of currency and coin. Therefore, a cashless society could mean a barter society in which commodities were traded for commodities. However, barter would represent a major step backward. The cashless society envisioned and discussed herewith refers instead to the widespread application of computer technology in the financial system. Increasingly, funds are being transferred via an "Electronic Funds Transfer System" (EFTS).

The EFTS

As it became apparent that electronic banking was here to stay, Congress in 1974 established the National Commission on Electronic Fund Transfers. The commission studied the infant EFTS, and published its recommendations in 1977. The commission concluded that an EFTS developed in an "orderly" manner would be beneficial to consumers of financial services and suggested that such a system operate outside the public sector. The commission went on to state that "a national EFTS could be supported by as few as 225,000 on-line terminals installed in general merchandise stores."

As the commission completed its research, the Federal Reserve established "Fed Wire." Fed Wire is a nationwide electronic communications network that links the 12 Federal Reserve District Banks, all member commercial banks, and the U.S. Treasury. It represents a considerable investment on the part of the Federal Reserve, and has been interpreted by the member banks as Federal Reserve endorsement of a nationwide EFTS.

Transition to an EFTS involves overcoming structural barriers such as high start-up

costs as well as the establishment of co-operation and communication among competing banks and retailers. In a sense, by the creation of Fed Wire, the Federal Reserve has provided not only an endorsement of EFTS, but a subsidy as well. Large institutions have capitalized on the Fed's investment, and smaller organizations must now subscribe to the changes in order to remain competitive.

An EFTS is made up of many components, the most widely known and accepted being Automated Teller Machines (ATMs). Additional integral elements are Automated Clearing Houses (ACHs) and Point of Sale terminals (POSSs). As we shall see, the ACHs and POSSs, not ATMs, are probably the keys to further progress toward a cashless society.

Federal Reserve economist Michael Keeley has argued that "trends in cash usage and holdings suggest that cold, hard cash is becoming an even *more* popular means of payment." He goes on to say that, "Since most ATMs use \$20 bills, it is interesting to note that the growth in volume of \$20 bills has been greater than that of other denominations since 1977—about the same time that the number of ATMs installed started to grow nationwide."

Federal Reserve reports on currency have shown a significant increase in the number of bills in circulation, and an increase in the average denomination being used; for example, the number of \$20 bills has increased faster than the number of \$10 bills. The number of checks being written and the average size of each check have also increased, but at much slower rates.

ATMs

Keeley uses such facts to support his view that a cashless society is "far from reality." However, a provocative argument can be made that the transition to a cashless society involves an *increase* in cash usage prior to its disappearance for all but low-dollar and "discrete" transactions. Before the spread of ATMs, a greater percentage of retail transactions involved payment by check.

Because of processing delays, checks present opportunities for buyers to make purchases prior to the receipt of the requisite funds in their accounts—i.e., there is a so-called “float.” However, checks also involve a certain amount of time and inconvenience for the parties to a transaction. Before the spread of ATMs the most common method of obtaining cash was from tellers at bank branches. With the limited banking hours of the day and the associated long lines, it was far more common for consumers to endure the inconveniences associated with check writing than to visit a bank branch to obtain cash. ATMs made cash easier to obtain, however, and it increasingly became the preferred method of payment.

POSS

The use of POSS may displace the use of cash obtained from ATMs just as the use of ATM cash has displaced checks. POS use reduces many of the liabilities of cash. For example, crimes such as mugging and purse-snatching would decrease in the absence of cash, and the opportunity costs of cash would be eliminated insofar as a consumer's funds would always be in interest-bearing accounts.

The shift away from cash and toward POSS may be obscured for a time by the use of currency to engage in tax evasion or illegal activities such as drug dealing. Progress toward cashlessness may also be obscured by the use of U.S. dollar bills in the former Soviet Union and elsewhere. But as such areas stabilize and adopt more sophisticated technology, their payments practices will probably start to resemble those in the United States.

Transition Problems

The transition to a fully electronic transfer of funds system will not be impeded by households; through the use of debit cards they are already in the process of becoming comfortable with the advantages of EFTS. Rather, some of the parties engaging in high

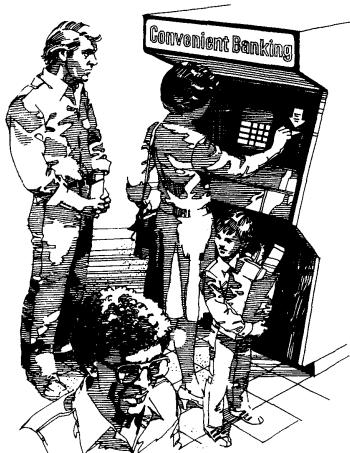
dollar transactions will provide resistance until the issue of float costs and benefits is resolved. Insofar as there are delays in processing checks, there is a float cost to the businesses getting paid. This cost is equivalent to a working capital expense for receivables. There is a corresponding benefit to payees who can continue earning interest until their checking accounts are finally debited. Elimination of this float would result in a significant redistribution of income among businesses, and this may explain some of the present resistance to EFTS conversion. The amount of interest earned via check float is now estimated to be between 40 and 50 billion dollars annually. Understandably, the recipients of this interest will resist its disappearance.

Canada has addressed the float issue by way of a banking industry and central bank accord that provides for same-day accounting of checks presented for payment. The float has been significantly reduced by the implementation of a retroactive interbank settlement process. This innovation has removed the float associated with the check clearing process, but not that which occurs when a payee holds a check for a period of time before processing it.

In order for the U.S. to overcome the barriers to an EFTS created by the float, it appears that voluntary conversion on the part of businesses, rather than regulation, is the answer. The U.S. Treasury has already reduced check use and shifted many government payments to electronic transfer. Among these are Social Security, federal payroll, and even large federal contract payments. It can be expected that the spread of electronic transfer practices will continue in the private sector as well, with the loss of float costs and benefits being considered in the terms on which parties are willing to do business with another.

Free Banking

The progress toward an EFTS could further complicate the Federal Reserve's attempts to manage the U.S. money supply. As economists are well aware, the public's



"Cash may continue to be useful for some time, especially for discrete transactions, but even these may become increasingly automated. Given the rapid growth in technology, it is not difficult to imagine devices whereby even the most informal purchases could be automatically debited from the buyer's bank account."

demand for cash influences the quantity of money in circulation. Perhaps more serious is the internationalization of money flows and the proliferation of new types of accounts. With electronic systems shifting funds from one type of account to another, and from one country to another, it has become difficult or perhaps impossible to say what "the" money supply is.

Part of the appeal of free banking is that it makes such issues moot. Financial institutions and customers could pursue their interests independently with their actions being coordinated by the invisible hand of the market. A cashless society would pose no special problems in this context. The 12 Federal Reserve District Banks could be privatized in the form of Automated Clearing Houses; the district bank stock to which member banks subscribe upon joining the Federal Reserve System could be converted into transferable shares in the ACHs. The newly privatized ACHs would presumably play a major role in interbank lending and reserve settlements.

In the case of either a gold-based or paper-dollar-based free banking system, base money could be kept at the ACHs, but it need not be. As long as all claims and settlements were continuously recorded, base money would only have to be available at ACHs or member banks to meet occasional customer requests.

In conclusion, the movement toward a

cashless society is proceeding incrementally. Cash may continue to be useful for some time, especially for discrete transactions, but even these may become increasingly automated. Given the rapid growth in technology (e.g., pocket-sized cellular telephones), it is not difficult to imagine devices whereby even the most informal purchases could be automatically debited from the buyer's bank account.

EFTS is likely to have a profound and visible impact on everyday decision-making. Some of the more obvious benefits are reductions in financial transaction time and cost, and a reduced need for cash which would, in turn, decrease the amount of interest forgone. The opposition to a cashless society is likely to become increasingly silent as it is defeated by subtle economic pressures exerted by the federal government and financial industry giants; they continue to realize the benefits of the transition to an EFT system. As this transition continues, the issue of float is likely to fade as well.

While we may not see a completely cashless society in the immediate future, the foundation has been laid, and the available evidence indicates that we are indeed moving in that direction. The fate of the Federal Reserve depends, of course, on political considerations, but the progress toward EFTS could ultimately prove to be a key factor leading to its replacement by free banking. □

WHY FREE MARKETS ARE DIFFICULT TO DEFEND

by D. Eric Schansberg

When posed as a general question, most people are inclined to support free markets and capitalism rather than government control and socialism. They have seen the fruits of "free market" economies and the failures of socialism. They support freedom as a principle and generally dislike the intrusions and bureaucracy of government.

Yet when it comes to specific government programs, the public is frequently enthusiastic about them. And whenever the economy is not running smoothly, the public demands action from the President and the Congress to "do something." By giving explicit or tacit approval to such programs, people reveal that they think government can solve problems better than the market. Thus, people support free markets in general, but support government intervention on particular issues. The free market is difficult to defend against calls for government activism.

The Visible and Invisible Hands

Many people would agree that socialism is a less productive system than capitalism. But socialism has one advantage. To the extent it does work, one can see exactly how

its success was achieved. As a pure economic system, every step between the inputs into production and the final product is controlled by a central planner—the "visible hand" at work. In other words, one can precisely point to how the loaf of bread got to the consumer's table.

Under a free market system, the "invisible hand" is just that—invisible. People pursuing their own interests are guided by the invisible hand of relative prices and inadvertently promote the well-being of society. Few people, if any, are able to enumerate exactly how the market is able to provide consumers with any particular good.

One of the contributions of public choice economics has been to note that costs and benefits are perceived in a similar manner in microeconomic settings. The benefits of individual government programs are as visible as the (albeit limited) successes of socialism as a macroeconomic system. When government creates new jobs through increased spending or preserves existing jobs through some form of protectionism, the additional employment is easy to see and is quickly attributed to government.

In addition, the costs of government activism are difficult to see. With programs that entail additional spending, government may choose to pay for the program with higher taxes now, higher taxes later (deficit

D. Eric Schansberg is Assistant Professor of Economics at Indiana University-Southeast.

financing), an inflation tax or some combination of the above. The visibility of these "payment plans" differs but all are more obscure than the benefits they bring. The costs of higher current taxes are the easiest to see (and thus the least politically popular)—but even they are subtle. Note that a one-billion-dollar program costs only four dollars per capita; for a family of four with a single wage-earner, taxes increase by only \$1.33 per month. Who would notice another dollar being taken out of his paycheck each month? Further, who will hold government accountable for the jobs that are lost as a result of taxpayers having less disposable income? The one billion dollar loss to consumers will destroy a few jobs in many industries since that money will no longer be spent on dry cleaning and appliances, or invested in new businesses. (See Henry Hazlitt's *Economics in One Lesson* [1946]. In Mr. Hazlitt's words, "the art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists of looking at the consequences of that policy not merely for one group but for all groups.")

Another way for the costs of a program to be hidden is for government to mandate that firms be responsible for providing it. A government program that subsidizes parents or firms to encourage or allow the parents to stay home with newborns would involve some direct expense. But if parental leave were to become a "worker's legal right," the benefits would still be easy to see and the costs would be nearly invisible. Who would attribute the subsequent long-term impact—some combination of greater unemployment, lower compensation for workers (in terms of other fringe benefits and wages), and higher product prices—to government's activism? These costs are extremely subtle.

The benefits of government programs are easy to see and their costs are difficult to see. In contrast, the benefits of less government involvement—a move toward freer markets—are subtle and its costs are quite visible. Thus it is not surprising that governmental activism is relatively popular. □

How Incentives Differ

Economics provides another important explanation for the paradox of why government activism often "wins the day." It turns out that those who receive the relatively large and easy-to-see benefits have incentives different from those who bear the relatively small and difficult-to-see costs.

Suppose that the benefits of the one billion dollar program cited above are split equally by 1,000 people; each will receive one million dollars. Remember that this will cost every citizen four dollars. It is unlikely that they will notice. But even if they did, it is improbable that they would want to devote significant resources either to obtaining information or to fighting the proposal. On the other hand, those receiving a million dollars will go to great lengths to obtain their favor from government. At the very least, they will have an incentive to present eloquently and forcefully the merits of the program (but not its costs). At the other extreme, they might provide disinformation to "rationally ignorant" voters or (at least implicitly) bribe legislators.

Further, the bureaucrats who administer the programs passed by the legislative and executive branches have an incentive to see their programs' scopes and budgets enlarged. They have the same incentive structure as the other "winners."

In sum, there are at least two plausible explanations for the paradox of why people support free markets in general and government activism in specific areas. The visible benefits of government activism are easier to explain than the more abundant but more diffuse benefits of free markets. And due to the different incentives that winners and losers face for any given proposal, the benefits of government programs are more forcefully argued since their proponents will (out of ignorance or deceit) discuss the program only in its most favorable light.

Government programs may be bad economics, but why they are bad economics may be difficult to explain. That is why an effective defense of the free market must be based on moral principle. □

YOUR MONEY— YOUR CHOICE

by E. C. Pasour, Jr.

The segment “Your Money—Your Choice” is a recurring feature on ABC’s nightly world news program hosted by Peter Jennings. It focuses on “pork barrel” spending such as the honey price-support program or military purchases that even the Pentagon doesn’t want.

This feature of the news has a laudable objective—to focus public attention on wasteful government spending. Unfortunately, “Your Money—Your Choice” is marred by two flaws in contributing to the debate over public policy issues. First, it fails to acknowledge problems inherent in the political process or why the public’s desire for political reform is likely to be thwarted. Second, the approach taken by ABC News, which considers only alternative government spending, is implicitly statist.

Is It Really Our Choice?

Ideas have consequences in economic policy, and public awareness of an existing problem is a necessary first step in bringing about improvements. However, mere public awareness and desire for political action often are not translated into effective political reform. This is no less the case for piecemeal than for comprehensive planning. In-

deed, the idea that smart planners in Washington can coercively structure social arrangements to optimize our well-being was characterized by Nobel Laureate economist F.A. Hayek as the “fatal conceit.” Such attempts are doomed to failure because of information and incentive problems that cannot be overcome in the political process.

Information Problems

Information was the focus of the “economic calculation debate” that occurred more than fifty years ago. This debate pitted Hayek and fellow Austrian economist Ludwig von Mises against Oskar Lange and other economic theorists who advocated socialism and central planning. Mises and Hayek demonstrated that the structure of production cannot adapt efficiently to consumer demand in the absence of competitive markets and the information and incentives conveyed through market prices. They emphasized that there is no effective substitute for market prices in discovering, coordinating, and transmitting information throughout the production and marketing system. Much of the relevant information is specialized to time and place and cannot be obtained by government officials. This finding, long denied by mainstream economists, is now widely conceded following the breakup of Communism in Eastern Europe and the former Soviet Union.

E. C. Pasour, Jr., is Professor of Agricultural and Resource Economics at North Carolina State University.

Incentive Problems

Even if appointed and elected political decision-makers were omniscient, however, they would be unlikely to act to promote the public weal because they face perverse incentives. Government officials do not have the incentives to economize that profit-seeking private entrepreneurs do. Instead, they tend to act to protect their jobs and to expand their power, which is heavily influenced by budget size. As a result, public budgets tend to be treated as "common pool" resources in which there is a disincentive to economize. A "Golden Rule" for the bureaucrat is to have no money left in the budget at the end of the fiscal year!

The incentive problem confronting elected government officials is even more perverse. Government programs may not represent the broad interests of the electorate because of a short-run bias in the political process. The long run for elected officials is the next election. Consequently, they prefer government programs in which the benefits occur in the short run and the costs come due in the long run—after the next election. Thus, it is common to find incumbent politicians voting to increase farm subsidies, Social Security payments, and other government-financed "goodies" before an upcoming election.

There is also slack in the political process because those who benefit from government programs have incentives to be better represented in Washington. Most government programs are such that a small group benefits at the expense of the public at large. Consider the sugar price-support program, which raises prices of sugar (and sugar substitutes) to consumers by limiting sugar imports. The program confers huge benefits, averaging more than \$200,000 per year, on each of the 10,000 or so producers of sugar and sugar substitutes. However, a doubling of retail sugar prices amounts to no more than \$100 per year to the typical family. Thus, when Congress debates sugar policy, it isn't surprising that sugar interests carry the day.

Sugar policy fundamentally is no different

from that affecting other farm products, textiles, steel, and automobiles—or public education. While each special interest might recognize that these programs that "rob Peter to pay Paul" are unwise, there is a "you first" problem. Each group has an incentive to desist in such efforts *only if* other groups also agree to do so. In reality, each group benefiting by a special dispensation from the state may favor a reduction in such efforts by others while fighting to retain its own special advantage.

What Can Be Done?

The preceding analysis suggests that the problem is rooted in the incentives people confront within the current political system. Hayek and fellow Nobel Laureate James Buchanan have shown that the public bidding may fail in an unlimited or majoritarian democracy in which the ability of groups to benefit through state power is not constrained by constitutional rules.

In short, the public's desire for political reform may be thwarted because of the information and incentive problems described above that are endemic in the political process. There is no way to avoid these problems, but the magnitude of the waste resulting from efforts by individuals and groups to use the state to increase wealth can be reduced. The challenge is to develop an institutional framework that will channel the self-serving behavior of political participants toward the common good in a manner similar to that described by Adam Smith with respect to the economic arena.

The problem of "faction," emphasized by James Madison, is rooted in the incentives that ordinary people confront within the prevailing rules of an unconstrained majoritarian democracy. The best hope lies in the Founding Fathers' attempt to develop institutions that, to the extent possible, bring personal self-interest into harmony with political liberty and economic prosperity.

Moreover, the importance of the ideological climate should be recognized. Indeed, it is unlikely that the framework necessary to

restrain leviathan can be devised and instituted in the absence of a change in attitude of voters concerning the proper role of government in a free society.

In short, the exposé by ABC News about a particular government boondoggle implies that we the listeners have a choice to make in terms of the activity in question. However, no emphasis is given to the problems of the political process that must be overcome to effect change. That is, the program focuses on an undesirable *result* of the political process, with no attention given to the fact that *the process itself* may be a major part of the problem. In public policy analysis, ignoring problems that are inherent in the political process is tantamount to a pro-government bias.

"It's Your Money"

ABC's uncritical view of the political process also is reflected in the program's suggested alternatives to the government activity under scrutiny. "Your Money—Your Choice" properly emphasizes the amount of taxpayer money spent on the activity in question and gives examples of various sacrificed alternatives. However, there is yet another statist bias in the approach taken by ABC News.

The sacrificed alternatives always are shown in terms of numbers of other *government* activities—number of public schools, number of schoolteachers, number of government loans to college students, number of tanks for the Pentagon, and so on. It is noteworthy that the sacrificed activities are always assumed to be other *government* goods and services. There is no awareness that citizens may prefer to *reduce* government spending by the indicated amount rather than merely increase spending on some other government project.

The implication of "Your Money—Your Choice" is that there is no problem concerning the overall level of government spending—the only problem is with *how* the public money is spent. That is, this ABC

News approach implicitly defends the present level of government.

What is the proper approach? In considering the opportunity cost of a current government program, private sector alternatives also must be taken into account. Consider, for example, the \$10 billion annual expenditure by the federal government on farm price supports. A valid opportunity-cost approach in evaluating farm price supports would consider not just other public programs but the number of private autos, number of private houses, number of college tuitions, and so on, that are sacrificed. An analysis of any government program which omits consideration of the forgone private sector alternatives has implicitly assumed without justification that public sector goods and services, at the margin, are more valuable.

Conclusions

Many people today contend that government institutions are unresponsive. Indeed, public opinion polls show that people feel that they are overtaxed and that they do not agree with the spending priorities of government, especially at the federal level. The "Your Money—Your Choice" ABC News approach fails on two counts to adequately enlighten the public about government spending.

On the one hand, no attention is given to the problems that are inherent in the political process—or to the implications for restraining the power of special interests. There is a total lack of constitutional perspective in considering economic issues with little or no consideration given as to *why* the system is unresponsive.

Second, it focuses only on how the pattern of government spending should be reallocated, implicitly assuming that the size of the public sector is beyond the pale. In failing to consider the sacrificed *private* opportunities when evaluating government boondoggles, ABC ignores the most important public policy problem in a free society—the appropriate role of government. □

THE TROUBLE WITH KEYNES

by Roger W. Garrison

The economics of John Maynard Keynes as taught to university sophomores for the last several decades is now nearly defunct in theory but not in practice. Keynes' 1936 book *The General Theory of Employment, Interest, and Money* portrayed the market as fundamentally unstable and touted government as the stabilizer. The stability that allegedly lay beyond the market's reach was to be supplied by the federal government's macroeconomic policymakers—the President (with guidance from his Council of Economic Advisers), the Congress, and the Federal Reserve.

The acceptance in the economics profession of fundamentalist Keynesianism peaked in the 1960s. In recent decades, enthusiasm for Keynes has waxed and waned as proponents have tried to get new ideas from the *General Theory* or to read their own ideas into it. And although the federal government has long since become a net supplier of macroeconomic instability, the institutions and policy tools that were fashioned to conform with the Keynesian vision have become an integral part of our economic and political environment.

A national income accounting system, devised with an eye to Keynesian theory, allowed statisticians to chart the changes in the macroeconomy. Dealing in terms of an economy-wide total, or aggregate, policy

advisers tracked the production of goods and services bought by consumers, investors, and the government. Fiscal and monetary authorities were to spring into action whenever the economy's actual, or measured, total output, which was taken to reflect the demand side of markets, fell short of its potential output, which was estimated on the basis of the supply side. Cutting taxes would allow consumers and investors to spend more; government spending would add directly to the total; printing money—or borrowing it—would facilitate the opposing movements in the government's revenues and its expenditures.

A chronic insufficiency of aggregate demand, which implies that prices and wages are somehow stuck above their market-clearing levels, was believed to be the normal state of affairs. Why might there be such pricing problems on an economy-wide scale? What legislation and government institutions might be standing in the way of needed market adjustments? These questions were eclipsed by the more politically pressing question of how to augment demand so as to clear markets at existing prices. The New Economics of Keynes shifted the focus of attention from the market to the government, from the economically justified changes in market pricing to the politically justified changes in government spending.

Politicians still appeal to basic Keynesian notions to justify their interventionist

Dr. Garrison teaches economics at Auburn University in Alabama and is a Contributing Editor of The Freeman.

schemes. The continued use of demand-management policies aimed at stimulating economic activity—spending newly printed or borrowed money during recessions and before elections—requires that we understand what Keynesian economics is all about and how it is flawed. Also, identifying the flaws at the sophomore level helps students to evaluate in their upper-level and graduate courses such modern modifications as Post, Neo, and New Keynesianism as well as some strands of Monetarism.

The extreme level of aggregation in Keynesian economics leaves the full range of choices and actions of individual buyers and sellers hopelessly obscured. Keynesian economics simply does not deal with supply and demand in the conventional sense of those terms. Instead, the entire private sector is analyzed in terms of only two categories of goods: consumption goods and investment goods. The patterns of prices within these two mammoth categories are simply dropped out of the picture. To make matters worse, the one relative price that is retained in this formulation—the relative value of consumer goods to investment goods as expressed by the interest rate—is assumed either not to function at all or to function perversely.

The Importance of Scarcity

Pre-Keynesian economics, such as that of John Stuart Mill, as well as most contemporaneous theorizing, such as that by Ludwig von Mises and F. A. Hayek, emphasized the notion of scarcity, which implies a fundamental trade-off between producing consumption goods and producing investment goods. We can have more of one but only at the expense of the other. The construction of additional plant and equipment must be facilitated by increased savings, that is, by a decrease in *current* consumption. Such investment, of course, makes it possible for *future* consumption to increase. Identifying the market mechanisms that allocate resources over time is fundamental to our understanding of the market process in its capacity to tailor production decisions to

consumption preferences. But as Hayek noted early on, the Keynesian aggregates serve to conceal these very mechanisms so essential to the intertemporal allocation of resources and hence to macroeconomic stability.

In Keynesian theory the long established notion of a trade-off between consuming and investing is simply swept aside. Consistent with the assumed perversity of the price mechanism, the levels of consumption and investment activities are believed always to move in the *same* direction. More investment generates more income, which finances more consumption; more consumption stimulates more investment. This feature of Keynesian theory implies an inherent instability in market economies. Thus, the theory cannot possibly explain how a healthy market economy functions—how the market process allows one kind of activity to be traded off against the other.

The “Multiplier-Accelerator” Theory

The inherent instability makes its textbook appearance as the interaction between the “multiplier,” through which investment affects consumption, and the “accelerator,” through which consumption affects investment. The multiplier effect is derived from the simple fact that one person’s spending becomes another person’s earnings, which, in turn, allows for further spending. Any increase in spending, then, whether originating from the private or public sector, gets multiplied through successive rounds of income earning and consumption spending.

The accelerator mechanism is a consequence of the durability of capital goods, such as plant and equipment. For instance, a stock of ten machines each of which lasts ten years can be maintained by purchasing one new machine each year. A slight but permanent increase in consumer demand for the output of the machines of, say, ten percent, will justify maintaining a capital stock of eleven machines. The immediate result, then, will be an acceleration of cur-

rent demand for new machines from one to two, an increase of one hundred percent.

The multiplier-accelerator theory explains why consumption is increasing, given that investment is increasing, and why investment is increasing, given that consumption is increasing. But it is incapable of explaining what determines the actual levels of consumption and investment (except in terms of one another), why either should be increasing or decreasing, or how both can increase at the same time. Students are left with the general notion that the two magnitudes, investment and consumption, can feed on one another, in which case the economy is experiencing an economic expansion, or they can starve one another, in which case the economy is experiencing an economic contraction. That is, Keynesian theory explains how the multiplier-accelerator mechanism makes a good situation better or a bad situation worse, but it never explains why the situation should be good or bad in the first place.

Only at the two extremities in the level of economic activity is a change in direction of both consumption and investment sure to occur. After a long contraction, unemployment is pervasive and capital depreciation reaches critical levels. As production essential for capital replacement stimulates further economic activity, the macroeconomy begins to spiral upward. After a long expansion, the economy is bulging at the seams. Markets are glutted with both consumers' and producers' goods. As unsold inventories trigger production cutbacks and worker layoffs, the macroeconomy begins to spiral downward. Keynes held that the economy normally fluctuates well within these two extremes experiencing a general insufficiency—and an occasional supersufficiency—of aggregate demand.

Textbook Keynesianism

In the simplistic formulations of macroeconomic textbooks, investment is simply "given"; in Keynes' own formulation, the inclination of the business community to invest is governed by psychological factors

as summarized by the colorful term "animal spirits." Keynes recognized that there are some "external factors" at work, such as foreign affairs, population growth, and technological discoveries. The market is envisioned, in effect, to be some sort of economic amplifier which converts relatively small changes in these external factors into wide swings of employment and output. This is the basic Keynesian vision.

Wage rates and prices are assumed either to be inflexible or to change in direct proportion to one another. In either case the real wage (W/P) is forever constant. The actual level of wages and prices is believed to be determined (again) by external factors—this time, trade unions and large corporations. If the real wage is too high, there will be unemployment on an economy-wide basis. There will be idle labor and idle resources of every kind. The opportunity cost of putting these resources back to work is nothing but forgone idleness, which is no cost at all. The assumed normalcy of massive resource idleness assures that the perennial problem of scarcity never comes into play. William H. Hutt and F. A. Hayek were justified in referring to Keynesian economics as the "theory of idle resources" and the "economics of abundance."

Textbook Keynesianism has a certain internal consistency or mathematical integrity about it. Given the assumptions that prices and wages do not properly adjust to market conditions—that is, the assumption that the price system does not work—then the Keynesian relationships among the macroeconomic aggregates come into play. Even the policy prescriptions seem to follow: If wages and prices do not adjust to the existing market conditions, then market conditions must be adjusted (by the fiscal and monetary authorities) to the externally determined prices and wages.

In the final analysis, however, Keynesian theory is a set of mutually reinforcing but jointly unsupportable propositions about how certain macroeconomic aggregates are related to one another. Keynesian policy is a set of self-justifying policy prescriptions. For instance, if the government is convinced

that wages will not fall and is prepared to hire the unemployed, then unemployed workers will not be willing to accept a lower market wage, ensuring that wages, in fact, will not fall. Thus, while the intention of Keynesian policy is to stabilize the economy, the actual effect is to "Keynesianize" the economy. It causes the economy to behave in exactly the same perverse manner that is implied by the Keynesian assumptions. This convoluted interrelationship between theory and policy has long obscured the fundamental flaws in the theory itself.

Students often ask the obvious question: Why is government policy grounded in such a flawed theory? From a political point of view, advocating and implementing Keynesian policy is the surest way to election and re-election. The gains from printing and spending money are immediate, highly visible, and can be concentrated on individuals who make up powerful voting blocs. The costs of this policy are incurred at a later date and can be spread thinly across the entire population, making the link between policy and long-run consequences difficult for the voting public to perceive.

The fading in recent years of old-line Keynesianism in academic circles provides little comfort. Even as the number of demand-managers continues to decline, it is from this shrinking group of economists that government officials seek advice and reconciliation. And opportunities to lecture to the seats of power rather than in the halls of learning have a way of changing some economists' minds about the advisability (political if not economic) of managing aggregate demand. Printing and spending money in pursuit of both short-run stimulation if not long-run stability remain the order of the day.

There is good reason, then, to study Keynesian theory: It helps us understand what the policymakers in government are likely to do in any given circumstance. But to understand the actual effects of their demand-management policies in the long run as well as the short, we need a more enlightening theory—one that recognizes what market forces can do on their own to maintain macroeconomic stability and how those forces are foiled by government-supplied stabilization. □

WHY GOVERNMENT CAN'T CREATE JOBS

by Mark Ahlseen

Any nation needs a certain number of government employees in order to function. But ever since the Employment Act of 1946 a different view of government employment has emerged: that government

can alleviate downturns in economic activity by spending—or "investing"—funds on projects that will stimulate employment. The government may be either a direct employer (as when it increases the numbers in our armed forces) or an indirect employer (as when it increases spending on highways, which increases employment in construc-

Mark Ahlseen is Associate Professor of Economics at King College in Bristol, Tennessee.

tion companies). As a nation we may need larger armies or more and better highways, but that is not germane to the discussion at hand.

The insidious notion persists that government job creation actually generates an increase in employment. According to this view, if construction companies increase employment by 100,000 jobs due to a \$3 billion government spending program to finance highway construction, then employment is 100,000 jobs ahead of what it might be in the absence of the program.

Rarely does the public debate focus on how employment in other sectors is affected when the government seeks the \$3 billion necessary to finance its program. These effects are important but, unfortunately, less visible because they are spread among hundreds, if not thousands, of employers.

Government spending, including spending designed to stimulate employment, may be derived from three sources. The first is taxes. If individual income taxes are raised by \$3 billion to fund our highway project, disposable income is reduced by \$3 billion. Consequently, individuals will demand less clothing, fewer appliances, and so on. Private sector employers will notice and respond by laying off workers. Since most of us will agree that we can spend our income more efficiently than can the government—if only for the fact we do not have to pay a bureaucratic overhead charge—lay-offs in the affected companies will exceed the employment added by companies constructing the new highways.

If corporate taxes are raised instead of individual income taxes, they will eventually result in higher prices for consumers, lower real wages for workers, and lower returns for investors. All of these result in a decreased ability to buy clothing and appliances with the net result that unemployment increases, not decreases.

A second source of funds is government borrowing, but this borrowing increases the price of lendable funds, which reduces the

amount of investment in the private sector. Consequently, fewer new factories, machines, and homes will be built. Not only does this decrease in private investment slow economic growth, it results in additional unemployment in these industries.

A final source of funds is the government's central bank, which can create new money. However, this monetary inflation results in price inflation by eroding the purchasing power of the dollar. This decrease in purchasing power will eventually increase unemployment as well.

Unfortunately, the political appeal of government spending stems from the fact that the jobs created are noticeable to the average voter, while the handful of jobs lost here and there are not attributed to the government spending program. Interestingly, from 1960 to 1988 there has been a positive, and statistically significant, correlation between public aid (as a percentage of GNP) and the unemployment rate. Conventional wisdom would have the public believe that as government "invests" in people the unemployment rate decreases. Yet the opposite is the case. For the same years there has been a positive, though statistically insignificant, correlation between government employment (as a percentage of total employment) and the unemployment rate. This suggests that as government work is created more jobs are lost elsewhere resulting in a rising unemployment rate.

As a nation, we undoubtedly need government employees for such things as national defense, police protection, and administering our court system (though I do question our founders' wisdom in relegating the delivery of first-class mail to government employees). But it is a fallacy of the Keynesian legacy that government can reduce unemployment by priming the pump with spending programs. Government needs to reduce spending and taxes in order to leave income in the hands of individuals who earned it and who can spend it much more efficiently than the government can. □

A LIFE-SAVING LESSON FROM OPERATION DESERT STORM

by Donald J. Boudreaux

Operation Desert Storm is considered to be one of the American military's greatest victories. The goal given by the United Nations was to drive Saddam Hussein's troops out of Kuwait. Regardless of one's opinion of the scope of this goal or of the propriety of United States military involvement in foreign nations, the fact is that American armed forces accomplished their task. They did so completely, unambiguously, quickly, and with very little loss of life. Americans should be especially grateful for this last fact.

Only 378—or .075 percent—of the 500,000 Americans serving in the Persian Gulf war lost their lives. This means that not even one in every one thousand Americans fighting in Operation Desert Storm was killed. Operation Desert Storm stands in sharp contrast to the war in Vietnam. The U.S. military in that Southeast Asian war did not achieve its goal of keeping the Communist totalitarians of North Vietnam from conquering South Vietnam. And, sadly, this military loss claimed the lives of more than 58,000 of the nearly 8.75 million Americans who fought in the jungles of Vietnam and Laos. The casualty rate in the Vietnam War was just under .7 percent—a rate nearly ten times greater than

the Gulf War. If U.S. servicemen had died in Vietnam at the rate at which they died in the Persian Gulf, we would have suffered only about 6,000 casualties. Can it be that 52,000 Americans lost their lives unnecessarily in Vietnam?¹ Alternatively, if Americans had perished in the Persian Gulf at the same rate at which they perished in Vietnam, more than 3,000 Americans would have been killed in Operation Desert Storm. The homecoming parades of 1991 would surely have been less joyous, and America's sense of accomplishment more tempered.

Conscription Is Hazardous to a Soldier's Health

There are, no doubt, many potential explanations for this great difference in U.S. military performance in the two wars. One crucial part of any valid explanation is that the U.S. military in Operation Desert Storm was an all-volunteer force. In Vietnam (and Korea), U.S. armed forces were composed largely of conscripts. This single fact plausibly explains much, perhaps most, of the success enjoyed by American troops serving in Operation Desert Storm.

To see why this is so, it is useful to recall the great policy debate of the 1960s which focused on the military draft. In addition to showing that an all-volunteer military would

Dr. Boudreaux is Associate Professor of Law and Economics at Clemson University.

actually be less costly to society than a conscripted military, economists Milton Friedman, Walter Oi, and others argued that conscription reduces the efficiency of military operations. Friedman nicely summarized this part of the argument against conscription:

A volunteer army would be manned by people who had chosen a military career rather than, at least partly, by reluctant conscripts anxious only to serve out their term. Aside from the effect on fighting spirit, this would produce a lower turnover in the armed services, saving precious man-hours that are now wasted in training or being trained. Also it would permit intensive training and a higher average level of skill for the men in service; and it would encourage the use of more and better equipment. A smaller, but more highly skilled, technically competent, and better armed force could provide the same or greater military strength.²

It is easy enough to see why a military manned by people freely choosing to join the armed forces enjoys lower turnover and, hence, greater average levels of experience and *esprit de corps* when compared with a conscripted force. But why does an all-volunteer force "encourage the use of more and better equipment"? The reason is simple. Conscription gives military decision-makers the power to acquire labor at wage rates below those that the military would have to pay in the absence of conscription. That is, decision-makers for a conscripted military get labor on the cheap. Because labor and capital (for example, tanks, better guns and ammunition, more high-tech airplanes) are substitutes for one another, when the price of labor is kept artificially low, military decision-makers use too much labor and too little capital to produce the desired amount of military power.

Consider a simple example. Suppose the top brass of the military agree that there are two ways of ensuring victory in a particular battle. One way is to have 200,000 troops, each armed with rifles, storm an enemy's stronghold. Another way is to have five

troops use five highly sophisticated fighter planes with smart bombs to attack the enemy's stronghold. It is not implausible to suggest that the method chosen is the one that will be least costly to military decision-makers (who do, after all, face a finite budget from Congress). Let's say that each fully equipped fighter plane costs \$1 billion, and that each pilot costs \$100,000 to employ. Thus, the total cost of achieving victory by use of fighter planes is \$5,000,500,000. This method will be selected only if it costs military decision-makers less than the cost of achieving victory with the massive-manpower method.

The cost to military decision-makers of the massive-manpower method depends on whether or not conscription is used. Suppose that with conscription the military pays each soldier \$5,000 annually, and that rifles and uniforms cost a total of \$200 per soldier. At this wage rate, it will cost the military \$1,040,000,000 in wages and equipment to achieve victory with the massive-manpower method.³ Military decision-makers are likely to use the massive-manpower method in battle because it is significantly less expensive to them than using the fighter planes.

But suppose, in the alternative, that conscription is prohibited. Without conscription the military must pay market wages to its soldiers, and market wages will be higher than the wages of conscripts. Suppose that market wages are \$30,000 per soldier. The total bill of achieving victory using the massive-manpower method in the absence of conscription would then be \$6,040,000,000—approximately \$1 billion more than the cost of achieving victory by use of the five fighter planes. Clearly, when military leaders are forced to pay market wages they have a strong incentive to economize on the use of labor by using greater amounts of capital equipment in producing military outcomes.

We can now see why "the use of more and better equipment" is encouraged by an all-volunteer force. Conscription artificially suppresses the price of labor relative to capital and, therefore, military decision-makers will use too little equipment and too

many men. The all-volunteer force reverses this unfortunate effect by giving military decision-makers the incentive to "use more and better equipment" along with fewer men and women.

Because conscription causes a greater number of military personnel to be used on the battlefield, and because too many of these people are not sufficiently dedicated to their tasks, conscription results in unnecessary battlefield casualties. It is important to emphasize that these unnecessary deaths and injuries result both from the military's use of excessive amounts of labor and from the fact that a conscripted military is less experienced and less dedicated than is an all-volunteer force.

Conscription Never Again

Operation Desert Storm showed just how efficient, effective, and relatively safe an all-volunteer military can be. Instead of sending large numbers of American men and women directly into harm's way, U.S. military leaders relied mainly on high-tech machines to do battle with enemy forces. In addition to the effectiveness of this military

hardware, a successful enemy hit against one of these machines—unlike a successful enemy hit against a flesh-and-blood soldier—does not cause tears of grief back home from a parent, a child, or other loved ones. Better a machine be destroyed than the life of a young man or woman.

Whatever the merits of Operation Desert Storm on the diplomatic and political fronts, its merit on the economic front is clear: Operation Desert Storm is powerful evidence that the all-volunteer military is far superior—and far less dangerous to its soldiers—than is a conscripted force. Let us hope that this is a lesson we never forget. □

1. The figures for the Korean conflict are even more gruesome. Of the nearly 5.8 million Americans who fought in Korea, more than 54,000 lost their lives. This is a casualty rate of just over .9 percent. If Americans had died in Korea at the same rate at which they died in the Persian Gulf, only about 4,000 Americans would have been killed in Korea; 50,000 who actually lost their lives would have lived.

2. Milton Friedman, "Why Not a Volunteer Army?" *New Individualist Review*, Vol. 4 (Spring 1967), pp. 3-9; this quotation is found on page 4. See also Walter Y. Oi, "The Real Costs of a Volunteer Military," *New Individualist Review*, Vol. 4 (Spring 1967, pp. 13-16); and "The Economic Cost of the Draft," *American Economic Review*, Vol. 57 (May 1967), pp. 39-62.

3. This figure is calculated by multiplying 200,000 by \$5,200.

THE CAUSE OF FREEDOM BEGINS WITH ME

by Roger Koopman

"**T**hese are the times that try men's souls"—immortal words scribbled by Thomas Paine on a scrap of paper by the dim light of a Revolutionary Army campfire. Those were indeed times of great despair,

and many of the revolution's "summer soldiers" had already deserted for home, convinced that their cause was lost. Yet in those darkest of days, men of great vision and faith stayed on, prompting Paine to continue, "it would be strange indeed if so celestial an article as freedom should not be highly rated."

Roger Koopman owns a small business in Bozeman, Montana.

Freedom, to the men of 1776, was more than highly rated—it was second only to salvation itself, as God's greatest gift. It was worth more than all the riches of earth, worth fighting for—and dying for. Thus they pledged their lives, their fortunes, their sacred honor. Most lost their fortunes, many lost their lives; but unlike the politicians of our modern day, none of them would lose his honor. We are a free nation today only because the people of *that* day were rooted in biblical faith and viewed liberty far more in spiritual than physical terms. They were willing to lose all their wealth and standing, but they would not compromise their freedom.

These, too, are times that try men's souls, but the challenge is from within, not from without. We do not face a redcoated enemy with fixed bayonets; we do not face physical starvation or the elements of winter. Yet our souls are starving. Daniel Webster once wrote, "the Divine knowledge has ebbed out of us, and we do not know enough to be free." Webster's words are sadly more appropriate to our age than to his own. So removed are we from the ideals of liberty that we scarcely talk about them anymore.

In today's world of politics and public policy, freedom is not looked upon as an end in itself. Instead, we define the "value" of freedom in physical terms, that is, in relation to the material benefits we derive from its presence—or its absence. Freedom has become little more than a means to a materialistic end. We cherish physical benefits where our Founding Fathers cherished freedom itself. One can only guess how long this trend will continue before we have lost both our benefits *and* our freedom. We are enslaving ourselves to our own appetites.

This "slavery" manifests itself in two fundamental ways: (1) We look upon government not as a protector but as a provider, as an instrument by which we can get something for nothing through "legal plunder" of our fellow man; and (2) we view government as the means by which we can exercise control over the activities of our fellow man for our own gratification or advancement.

Examples of the first of these two mind-sets are seen in almost every political speech and legislative action on the state and federal level. Attend a committee hearing in your state capital sometime; the spectacle is often revolting. Everyone, it seems, is demanding something from government that he has not earned, courtesy of our taxes. The only thing people typically *don't* demand is the freedom to produce these things for themselves, and the opportunity for self-reliance unencumbered by government.

A good example of the second phenomenon—the urge to dictate and control the lives of others—can be seen much closer to home, through the actions of interventionist local government. Almost overnight, city or county commissioners can transform a peaceful community into a place of hostile, warring factions. Zoning ordinances turn neighborhoods into battlegrounds and good will into bitterness. While it can be argued that local politicians often overstep the bounds of voter intent, it cannot be denied that many who vote for these professional meddlers do so because they find their "control" message appealing—they *want* local government to harass local citizens. They *want* to interfere with other people's lives. Thus, the appearance of a businessman's sign or a neighbor's picket fence becomes "all important" in the minds of many voters; their fellow man's personal freedom is not important.

It is time to rekindle within each of us, in the words of George Washington, "that little spark of celestial fire called conscience." For the sake of conscience, we must resolve to honor and defend our neighbor's freedom as our own—and to do so even if we don't agree with the choices he makes. For the sake of conscience, we must resist every temptation to go to government for a subsidy or "freebie," even if everyone else is doing it—*especially* if everyone else is doing it. We must, each one of us, individually strike that match of conscience in the darkness until our collective light makes America once again the beacon of freedom to all the world. □

IMMIGRATION—FRIEND OR FOE?

by James E. McClure and T. Norman Van Cott

*Give me your tired, your poor,
Your huddled masses yearning to
breathe free,
The wretched refuse of your teeming shore.
Send these, the homeless,
tempest-tossed to me,
I lift my lamp beside the golden door!*

—EMMA LAZARUS
“The New Colossus”

Do immigrants slice themselves a piece of the U.S. economic pie at the expense of Americans? Judging from the xenophobic backlash against immigrants in much of the media, many Americans apparently accept this assessment. As a result, immigration now connotes U.S. international charity. Public debate focuses on whether the United States can “afford” immigrants.

Casting immigration as a test of American compassion obscures a rational appraisal of its costs and benefits. *Working* immigrants do not slice the economic pie against Americans. Quite the contrary, Americans obtain bigger helpings of pie when immigrants work. Such immigrants may be likened to labor-saving technical innovations.

Only welfare state handouts enable immigrants to slice the pie against Americans. Prior to the welfare state, immigrants had to work to survive. U.S. history is replete with

examples demonstrating that working immigrants benefited not only themselves, but also the Americans who employed them and the Americans who purchased what immigrants produced. Today, handouts have eliminated the necessity of immigrants benefiting Americans in order to survive.

More Pie for Americans

To see the value of working immigrants, look at what happens if low-wage Mexican immigrants replace high-wage American tomato pickers. Such a replacement can occur only to the extent Mexicans underbid Americans for the picking jobs. For example, if American pickers are earning \$12 million, and if the most they can earn in other jobs is \$10 million, Mexicans must be willing to pick the tomatoes for less than \$10 million—say, \$7 million.

Regardless of who picks the tomatoes, U.S. citizens cannot have tomatoes without forgoing other goods and services. There are no free tomatoes! Because American pickers can earn \$10 million in other jobs, U.S. citizens sacrifice \$10 million of other things when Americans pick. On the other hand, paying Mexicans \$7 million for picking means they can lay claim to \$7 million of U.S. products. Thus, U.S. citizens sacrifice only \$7 million of other things when Mexicans pick. Opting for Mexican pickers enables U.S. citizens to have the tomatoes plus an extra \$3 million of other things.

T. Norman Van Cott and James McClure are Professors of Economics at Ball State University in Muncie, Indiana.

Does Anyone Lose?

Not all U.S. citizens are better off when Mexicans pick the tomatoes. American pickers lose \$2 million—they formerly earned \$12 million, now they earn \$10 million. Many people think this \$2 million is part of the \$7 million paid to the Mexicans—that is, Mexicans capture what the American pickers lose. Nothing could be further from the truth.

The loss to American pickers goes to *other Americans*. It is part of the \$5 million reduction in wages paid to pickers due to the influx of Mexicans (\$7 million versus \$12 million). Lower wage costs obviously help American owners of tomato farms. In turn, market forces translate lower wages into lower tomato prices for American consumers. Not a penny of this goes to the Mexicans.

Beyond reshuffling \$2 million among American pickers, farmers, and consumers, remember that the Mexicans generate \$3 million *additional* pie for U.S. citizens. This is also the other part of the \$5 million reduction in wage costs. Just as happened with the \$2 million reshuffling, market forces apportion this extra pie among American tomato farmers and consumers.

Lower tomato prices also give Americans the opportunity of using tomatoes in ways that were uneconomical at higher prices. It follows that the benefits tomato consumers reap from these new uses make the increase in the economic pie even larger than \$3 million.

If someone invents a machine that can underbid American tomato pickers, the consequences for American pickers, farmers, and consumers are identical to those brought about by low-wage Mexican pickers. That is, the reduced harvesting costs: (1) recut the pie into different pieces for pickers, farmers, and consumers; and (2) enlarge the pie to the benefit of the same farmers and consumers.

Given the similarity between working immigrants and innovation, it is curious that immigrants are seen as parasites. American heroes such as Thomas Alva Edison and

Alexander Graham Bell testify to the value that historians assign innovation. Admittedly, seeing people work for lower wages does not pack the same excitement as seeing new machines roll across the fields. Nevertheless, both pack the power to increase Americans' living standards.

Non-Working Immigrants

Instead of picking tomatoes for \$7 million, suppose the Mexican immigrants end up on the unemployment or welfare rolls, collecting \$7 million in handouts. The economic pie available to Americans would be \$10 million smaller compared to the case in which the Mexicans worked. In addition to a \$7 million tax bill for the handouts, Americans would forsake \$3 million of *extra* pie that working Mexicans would have generated.

The only Americans who would favor non-working immigrants (or no immigrants at all) would be Americans who compete with immigrants for jobs. American tomato pickers in our example would earn \$2 million more if shielded from working Mexicans, but don't forget that this comes at the expense of American tomato farmers and consumers. In addition, remember that without working Mexicans, these same farmers and consumers will also be eating from an economic pie that is \$3 million smaller.

The Statue of Liberty describes immigrants as "tired . . . poor . . . homeless . . . huddled masses yearning to breathe free." Prior to the welfare state, however, Lady Liberty's "golden door" did not open to a golden gravy train. Immigrants worked, and in the process proved a blessing to their American hosts. Immigration is a win-win proposition when people are responsible for their own economic destiny.

The rise of the welfare state is turning immigrants from friends to foes in America. The xenophobic backlash against immigrants, while understandable, misses the mark. Americans must look beyond the immigrants and see that their own government's misguided welfare programs are the source of the problem. □

THE COMMON GOOD AND THE FREE RIDER

by Mack Tanner

If you have ever argued for freedom and individual liberty, someone has probably argued back that the commanding hand of government must be present to provide for the common good and to promote the general welfare. They will tell you that we cannot trust humans to sacrifice voluntarily for the common good, and that any community effort that depends on voluntary contribution is doomed to failure because of the *free-rider dilemma*. Too many people will take the benefit without contributing anything to the cooperative effort.

But how does one determine what is the common good and the general welfare?

Let's look at a simple situation that tells us something about how and why humans cooperate and how we determine the common good.

Al and Bart

Two men are fishing. Both fishermen are reasonably competent and each can expect to catch three fish by fishing alone. An economist will tell us the expected Gross Group Income is six fish, but neither fisherman will think about that. Each individual is only interested in the three fish he expects to catch.

Suppose that each man knows that if the two of them cooperate (share knowledge about where the best fishing spots are,

Mr. Tanner, who lives in Moscow, Idaho, is a retired American diplomat and free-lance writer.

watch each other's lines, help net the fish when one is caught, and so on), they can expect to catch four fish apiece. That results in a Gross Group Income of eight fish, a net gain of two fish.

The expected group gain is not the number that will guarantee that the two men cooperate. They cooperate because of the expected individual gain—the bonus of one fish each will catch because of their cooperation. They cooperate not for the common good, but for their own selfish benefit.

But suppose fisherman Al is a very good fisherman, and fisherman Bart doesn't have the foggiest idea about how to catch fish. Fishing by himself, Al can expect to catch four fish while Bart will catch no fish. However, if Al helps Bart, then Bart will catch two fish, but Al will catch only three fish. (Al will reduce his own catch because of the time he spends teaching Bart how to hook a worm, cast a line, and play a hooked fish.)

The Gross Group Income jumps from four to five fish as a result of the cooperation. If you are one who judges success by what the group does rather than what the individual receives, and if you insist that each individual must serve the interests of the group rather than his own selfish interest, then Al must help Bart because that will increase the Gross Group Income even though it reduces the personal income of Al by one. Al must serve the common good even though that requires him to sacrifice a part of his own good.

This is socialism reduced to the level of just two people. The advocates of socialism will tell us that Al should happily join in with the cooperative effort because all humans have a moral obligation to serve the common good rather than their own selfish wants.

If you try to build a peaceful society on that principle, you are doomed to failure. If Al is a self-interested individual, and everyone is, he could care less what the Gross Group Income is. If Al gains no reward for helping Bart but pays a price for doing so, and if given a free choice, Al will catch four fish working for himself, while Bart catches none.

Other Rewards

But a day of fishing may offer more in the way of rewards than just the number of fish caught. Al may be a vain and proud man who will enjoy the praise and thanks he will receive from Bart for his help; Al could be lonely and want the company and good fellowship he gets from helping Bart; or Bart might be a great hunter and Al will need some help in that line come fall. Al could also believe in a religion that teaches him he will receive a heavenly reward for helping Bart learn how to fish.

It's also possible that Bart looks mean, ugly, and hungry, and Al is afraid that if he doesn't help Bart, Bart will steal the four fish Al expects to catch. So Al appeases his own fears by teaching Bart to fish.

In each of these situations, Al gets a reward for his cooperation that he believes is worth more than the fish he loses by cooperating with Bart. If fisherman Al were an economist he might put the situation into a formula: Four fish minus one fish (cost of cooperation) plus pleasure (reward of cooperation) is greater than four fish. The Gross Group Income doesn't increase just by two fish but by two fish plus Al's pleasure (or more probably by two fish plus Al's pleasure plus Bart's pleasure because Bart also gets a kick out of learning how to fish and the extra good fellowship).

Neither individual will worry about

whether the Gross Group Income increases or decreases, nor for that matter, whether the other person gets more out of the cooperation than they do. Each person makes his decision based strictly on his own wants and his own perception of what he gains from cooperation. The two fishermen will only cooperate if *both* men believe they are going to get more out of the cooperation than they would earn by acting alone. On the other hand, no matter how much one party could benefit from the cooperation, the cooperation will not take place if the second party doesn't get some kind of reward that makes the cooperation worth his time and effort.

While it is easy to count fish, it's impossible to put quantitative values on the rewards of friendship, hope of heaven, family love, loss of fear, and self-pride. Each personal decision to cooperate or not will be a highly subjective one with a dozen or more variables at play. Because each individual only will cooperate when he believes the total profit of his cooperation exceeds the price of cooperation, a voluntary cooperative effort will always result in an increase of the Gross Group Income—provided one includes both material and intangible benefits in figuring income.

It's impossible to determine mathematically which of the group members is getting a *fair* share of the Gross Group Income or who is putting more than a *fair* share into the group effort and taking less than a *fair* share out because it's impossible to determine how any single individual subjectively measures the non-material income he earns by participating in a cooperative effort.

Any measurement of Gross Group Income that includes only the material gains or losses will be a false measure. For example, several fishermen in a party might catch fewer total fish than each of them could have caught by fishing alone, but they will all consider the day highly successful because of the fun and fellowship they harvested. (This is a situation that gives the central economic planners nightmares. Their statistics will show declining profits and no doubt the politicians will campaign on a promise of how they will increase the profits from

fishing if they are elected. Yet, each of the individual fisherman in the group will resist every effort that increases the catch at the cost of reducing the fun.)

The Common Good

The only way to judge whether or not the common good is served by a cooperative effort is to observe whether or not every single individual in the group continues to cooperate voluntarily to achieve the targeted goal. If even a single individual refuses to cooperate, then the goal cannot be proclaimed to be in the common good of everyone but only in the common good of those who want to participate voluntarily.

If fisherman Al doesn't want to cooperate with fisherman Bart, Bart may get Al to change his mind by upping the rewards that Al will get out of the cooperation. Bart can offer Al a greater share of the catch or offer to pay Al with some other commodity for his help. He might also remind Al of the rewards of heaven for good behavior. Other than that, Bart's only choices are either to forgo the cooperation or to force Al to cooperate.

Bart may be in such dire straits because of his lack of fishing skills that he decides he has no choice but to force Al to help him fish. The forced cooperation may result in a situation where the two men together catch more fish than they would have caught with each fishing alone. But Bart cannot claim that he used force in behalf of the common good. He used force in his own self-interest, and he exploited Al in doing so.

How much cooperation can Bart really expect to get out of Al by forcing Al to cooperate? At best, Al will only give the minimum amount of cooperation he can get by with. Rather than teaching Bart what he knows about catching fish, Al will catch the minimum amount of fish necessary to satisfy Bart.

The most damaging thing that happens may be the loss to both men of the pleasure rewards of voluntary cooperation. Fishing will no longer be a fun activity but a drudgery that one is forced to work at while the other must stand guard to make sure the

work gets done. Al will look for a chance to escape or take his revenge on Bart, and Bart will wait in fear for that to happen. While the central planner's figures that measure only the number of fish caught may well show a greater Gross Group Income because of the forced cooperative effort, the emotional profit of cooperation which cannot be measured will disappear.

The Lesson Applied

This same basic formula controls the decision-making process if there are three people, four people, forty people, or forty million people. No matter how large the group, voluntary cooperation will always occur if every single member of the group perceives that he is getting more benefit out of the cooperation than the cost of cooperating. If every member of the group doesn't get more benefit out of cooperation than what he puts in, the only way to achieve cooperation is to force the unwilling to cooperate.

Should a few selfish people be permitted to prevent a large group from achieving a common goal by their refusal to participate? It seldom happens that way. What happens in real-life voluntary cooperation is that the group excludes the defector from the rewards while the rest of the members continue to cooperate. Each remaining member will continue his cooperation for as long as he makes the subjective judgment that cooperation serves his needs and desires better than going it alone.

The voluntary cooperative community is always a self-policing community. Each participant will be constantly re-evaluating his own position in terms of deciding whether or not he or she should continue to cooperate. The free-rider dilemma will be self-correcting. Free riders will either be shamed into making a fair contribution or will be ejected from the group so that they can no longer participate in the rewards.

If too many people start to free ride, then the producing members will stop producing and the group will dissolve. The work either will not get done, which means it was not in

the common good, or new, smaller voluntary groups will form and make a new try at the endeavor.

The Free Riders

What about those who don't participate but who continue to benefit from the work of the group—say someone who refuses to contribute money and volunteer service to a volunteer fire department because he knows the fire department will have to put out a fire at his house in order to save the surrounding houses? Shouldn't such free riders be required to pay their fair share in such cases?

The answer can be found in another question. Why do the firemen put out the fire at the house of the free rider? Is it because they care about the free rider?

Of course not. Indeed, the free rider could want his house to burn down so he can collect the insurance. All the volunteer firemen care about is protecting their own homes. They put out the fire for the same reason they would put out a grass or forest fire that threatened the town. Every member of the volunteer group still achieves the common goal of the group, the protection of their own homes.

In the real-life situation, the members of the community who are cooperating may do every peaceful thing possible to encourage the free rider to do his fair share, but giving a few free rides in such situations like fire fighting, crime prevention, or defense from enemy attack is part of the price we must be willing to pay to keep the voluntary group effort going.

Majorities and Minorities

What if the majority of the people in a community agree that they must cooperate to achieve some common good, but they cannot achieve the good unless they also have the help of those who refuse to cooperate? Doesn't the majority have the right to force the minority to go along?

That's exactly the argument that the socialist and the welfare statist make. They tell us that just as we must use force to prevent

the criminal from destroying the goals of the cooperating community, the community may also have to use force or threat of force in order to ensure that everyone does his fair share of the work in achieving the common good. That's what socialism and state welfarism are all about.

Their argument is based on logical fallacies that are demonstrated with the tale of two fishermen. What a majority wants and even insists it needs cannot be described as the common good if it can be achieved only by forcing a minority to put more into the endeavor than it will collect in profit. It may indeed be for the common good of the majority, but not for the whole community. No matter how noble, productive, or necessary for survival the goal of the majority might be, if the majority forces the minority to contribute involuntarily, the majority is exploiting the minority.

In an imperfect world, there will be rare times when members of a community confront a threat so dangerous to survival that they find they have no choice but to force an objecting minority to do the will of the majority. However, given the price of violence, such action should be reserved for only the most extreme cases. In most situations that confront any community, the majority is better advised to cooperate on a voluntary basis in resolving all the community's problems.

While the free-rider dilemma is self-correcting in a voluntary cooperative effort, it magnifies itself in an involuntary effort. If all must cooperate, no one will have any good reason to contribute anything more than the absolute minimum; everyone will be trying to take out as much of the profit as he possibly can.

The shrewdest members of the group will find it more productive to wield control through the political process rather than working to increase economic production. Rather than choosing to be entrepreneurs who figure out ways to increase production, they will seek to become the central planners so they can cut themselves a bigger piece of a shrinking pie.

Those working in a system in which

cooperation is forced rather than voluntary are neither more nor less inherently selfish than those working in a voluntary system. But those depending on the voluntary contribution of others quickly learn that they must satisfy the demands of others in order to satisfy their own demands. Those working within an involuntary system learn that what counts is who controls the force.

A voluntary cooperative group which fails to provide the rewards that each of its members wants either self-corrects or disbands. If the leaders fail the group, they are quickly defrocked and cast aside as a certain television evangelist and the director of a national charity recently learned.

But those trapped in an involuntary effort have no choice but to continue to participate no matter how much their leaders fail them nor how many of the other members of the group decide the smart money is on the free ride.

The collapse of the socialist powers of Eastern Europe has proved with great human tragedy how forced "cooperation" is never in the common good. But those who think the West's kinder, gentler form of forced cooperation via taxation has been declared the winner need to look at what is really happening in the welfare state democracies.

With the politicians and bureaucrats controlling growing amounts of money that have been forcibly collected in taxes, every

citizen does everything possible to reduce the taxes he pays and to increase the benefits derived from the treasury. It's a lot easier in America these days to join the free riders and pile onto the entitlements bandwagon than it is to engage in productive activity and then see forty percent or more of one's income taken in taxes and given to other people. The central planners never serve the common good; they always serve the good of those who are clever enough to work the system to their own advantage. The winners are always the politicians, the bureaucrats, and those who learn to manipulate the system by spending money in the right places.

Even the most committed supporters of the democratic welfare state are beginning to recognize that something has gone wrong, that the money that was supposed to take care of the poor, the sick, the unemployed, and the helpless is instead being sopped up by politicians, government employees, the most successful farmers, the rich businessmen who are protected by subsidies and tariffs, much of the legal profession, and the well-fixed retired.

Once the decision is made to take money from some voters and give it to other voters, the worst and the brightest will manipulate the election system to ensure that they get a cut of the Gross Group Income that is greater than the amount they are forced to contribute. The interventionist society is a political war of all against all. □



WHY ADAM SMITH BURNED HIS CLOTHES

by Edwin G. West

Never before, it seems, have candidates for high office in government been subjected to so much scrutiny. And this is not just the result of a new-found zeal in the joint party committees that review appointments. The press sometimes goes to unprecedented lengths in its role of watchdog/inquisitor. The recent story about women candidates for the post of Attorney General under the Clinton administration is one of many striking examples. These candidates employed illegal aliens as domestics. Such acts by seekers of public office certainly place them well outside the pale these days, however trifling they may seem to the layman. And once appointed the officeholder will find all sorts of problems in the game of keeping his job secure. Have we gone wrong somewhere? Have we succumbed passively to media-induced hysteria? And are there any unintended effects of this new level of harrying?

I am reminded of an event in the life of Adam Smith. He is, of course, known as the man who wrote the classic work *The Wealth of Nations* in 1776 that argued for market freedom and minimum government. Less well known is the fact that in 1778 he earnestly sought a high level government appointment. Smith succeeded in obtaining

the position, that of Commissioner of Scottish Customs, without having to face anything like the same degree of difficulty confronting today's officeholders. But he was certainly aware that, once appointed, bureaucrats in important positions still have to be very wary in their personal behavior and to avoid so-called conflict-of-interest behavior.

Once in office Smith soon acquainted himself with the full details of custom law, and was promptly alarmed to discover that for some time he had been personally violating it. Almost as if to clear his conscience, let alone his record, he wrote to William Eden (Lord Auckland):

About a week after I was made a Commissioner of the Customs, upon looking over the list of prohibited goods (which is hung up in every Customhouse and which is well worth your considering), and upon examining my own wearing apparel, I found, to my great astonishment, that I had scarce a stock [neck cloth], a cravat, a pair of ruffles, or a pocket handkerchief which was not prohibited to be worn or used in Great Britain. I wished to set an example and burnt them all.¹

If political conditions had been similar, and if the press had been as active and vigilant in the Scotland of 1778 as they are in the U.S.A. in 1993, Smith might never

Dr. West is Professor Emeritus, Carleton University in Ottawa, Canada.



employed in labours more profitable to the world, and more equal to his mind.”²

The one most important part of his literary plans that Smith left unfulfilled was his intended presentation of an account of the general principles of law and government and their evolution through time. It was this neglect, in particular, that most disappointed the later classical economist J. R. McCulloch: “Thousands of persons could have performed the duties of Commissioner of the Customs quite as well as Smith, or perhaps better; but there was not one, besides himself, who could have given that account of the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society.”³

But who was McCulloch to talk? He went from a university professorship to fill the mundane office of comptroller of Her Majesty’s Stationery Office. And he held this post for the last 26 years of *his* life (from 1838 to 1864)!

Such, curiously, was the lure of government office to both these fervent advocates of the free market. But then neither of them argued for *zero* government. And because *somebody* had to be employed in it, Smith could have insisted, why shouldn’t he be allowed to apply? All the same, the burning of his clothes seems like extremism in defense of moral rectitude; or was it just job security? □

have been appointed! Moreover his “setting an example” by burning his clothes would not have rescued him either, for he would have advertised thereby that the crime had already been done, and this would have been enough to brand him forever, just as the confession of having once employed illegal aliens seems enough to invite eternal disqualification.

The irony is that if Smith *had* failed to obtain his government appointment because of a more hostile political and media environment, this would have provided an unintended social service. Smith’s alternative employment—university teaching and taking advantage of many more writing opportunities—would undoubtedly have bestowed significant net benefit on posterity. As his colleague Dugald Stewart observed about Smith’s last 12 years, all of which were spent in the customs office: “It is impossible to reflect on the time consumed, without lamenting, that it had not been

1. Letter to William Eden, Edinburgh, 3 January 1780, in *Correspondence of Adam Smith* edited by E. C. Mossner and I. S. Ross (Oxford: Oxford University, 1977), pp. 244–246. In the letter Smith argues for complete abolition of all import prohibitions because they encouraged monopoly and no revenues arose from them except in consequence of fines and forfeitures. Smith advised substituting moderate and reasonable duties. In this way competition would be kept alive while government would enjoy increased revenues. The best account of Smith’s sojourn at the Customs Office is Gary M. Anderson, William F. Shughart, and Robert D. Tollison, “Adam Smith on the Customhouse,” *Journal of Political Economy*, Vol. 93, No. 4, August 1985.

2. Dugald Stewart, “Account of the Life and Writings of Adam Smith,” in *Adam Smith: Essays on Philosophical Subjects*, edited by W. P. D. Wightman and J. C. Bryce (Oxford: Clarendon, 1980).

3. Mark Blaug and Paul Sturges, eds., *Who’s Who In Economics: A Biographical Dictionary of Major Economists, 1770–1981* (Cambridge, Mass.: MIT Press, 1983), p. 257.

A TRIBUTE TO EDMUND A. OPITZ

by Robert Sirico

It is customary on occasions such as this to begin by stating what an honor it is to have been asked to speak. And the challenge with which I find myself confronted is how to express to you my deep sense of privilege without it sounding in any way perfunctory.

The best way in which I can do that is, perhaps, indulgent, but being a Catholic, I tend to believe in indulgences, within the requisite boundaries—and I consider this occasion to meet that standard.

I was born not more than fifty miles due south of this compound, at the Brooklyn Jewish Hospital, into a hard-working, blue-collar Italian family. I went to school in a multicultural and ecumenical context, long before the words *multicultural* or *ecumenical* were employed in common parlance.

I will relate only one of the images etched in my mind which formed the initial soil that would harbor and nourish the seeds which would come to fruition at a somewhat later date—seeds which this institution, in general, and Edmund Opitz, in particular, had something to do with scattering and planting.

The image to which I refer is of an elderly Jewish lady who lived across from my family's railroad flat above Coney Island Avenue. Mrs. Snyder had, what seemed to a child of six, the magic ability to cause the

Mr. Robert Sirico, President of the Acton Institute, made these remarks on the occasion of the retirement dinner of Mr. Edmund Opitz at the Foundation for Economic Education in Irvington, New York, on December 13, 1992.

most luscious, aromatic, and sweet smells imaginable to emanate from her old Wedgewood stove.

I recall sitting at our kitchen window as she would gather and pour all her ingredients into a large mixing bowl, creating a doughy substance, which she would then pluck from the bowl, piece by piece, and place on a cookie sheet. This she would then place into the oven which, in a short time, would result in an aroma that was so rich that you could almost see it wafting between our two windows.

A few minutes later, which seemed like an eternity, Mrs. Snyder would remove that tray, replacing it with another, and place the now finished product on her windowsill to cool.

I watched this ritual intently, and when the temperature of the cookies had dropped, but not so much that they weren't still warm, Mrs. Snyder would beckon me in her thick Central European accent: "You'll come and I'll give you some." I hopped out my window and walked—floated is perhaps a more apt word to describe the sensation—the few feet to her window.

One summer day when Mrs. Snyder, in a short-sleeved calico dress, filled my hands with a napkin overflowing with her treasures, I noticed something on her forearm.

I didn't say anything to her, but when I climbed back into my kitchen, I asked my mother why Mrs. Snyder had numbers on her arm.

My mother explained, as best she could to one so young, that because of their religion Mr. and Mrs. Snyder had been treated like animals and branded.

That remembrance of the attempt to use force over the human conscience stays with me to this day. But, at the time, and for many years after it, I found myself confused when I tried to make sense of the interrelationship of liberty and religion.

It was when I was in my mid-twenties, still not having made a coherent connection between these ideas, that a friend visited. (It was my birthday.) We had had numerous conversations, indeed arguments, about philosophy, economics, politics, and religion.

I was, at the time, I confess, ensnared in the fog of socialist rhetoric, there being little else intellectually about socialism to ensnare one. The birthday present my friend arrived with that day was a small library of books and magazines. Among them were titles with which this gathering will be familiar: *Socialism*, by Ludwig von Mises, *Capitalism and the Historians* and *The Road to Serfdom*, by F. A. Hayek, *The Law*, by Frederic Bastiat, *The Freeman*, and, of course, *Religion and Capitalism: Allies, Not Enemies*, by Edmund Opitz.

In a short period of time the fog cleared, proving once again the truth of the old saying: "You may be a socialist when you're young because you have a heart, but you won't be a socialist when you're older if you have any brains."

Thus, I began to read *The Freeman* and have been assisted in ways too countless to enumerate by the wise, prudent, temperate, and erudite contributions of Ed Opitz.

Not only his scholarship, but his very example as a Christian gentleman assured me of the possibility of integrating virtue and liberty in one's life and society.

It came to pass that I recovered my earlier faith, and thanks in significant part to the existence of The Foundation for Economic Education and the cogitations of Ed over the years, I was duly inoculated against the specious claims of the left by the time I entered seminary to study for the priesthood.

But you, of all people, have heard this

kind of story many times over. And this is because The Foundation for Economic Education, and Ed Opitz, have simply become a part of the landscape of liberty in this century.

In the days when central planning was the unquestioned course of public policy, and when religious leaders taught variations on the theme that socialism was the practice of which Christianity was the religion—there was Ed Opitz, in a plethora of articles, boldly, yet calmly, adamantly, yet with respect, indicating with the most gentle and genteel of manners, that, in point of fact, the Emperor had no clothes. Before there was such a thing as liberation theology, Mr. Opitz provided the antidote to that theological and economic heresy.

Not more than four years ago, Europe was in the literal death grip of history's most brutal institutionalization of collectivism. With great prescience Ludwig von Mises, of esteemed memory, and no stranger to these very corridors, demonstrated in the 1920s that socialism would fail because it interfered with the coordination of information as expressed in the free market's pricing system. In the late 1980s, that economic insight was combined with the spiritual nudge which caused the colossal wreck of Communism to cave in on itself.

This was the very integration made flesh—whether the Pentecostals in Russia, the Soviet Jews, the Evangelicals in Hungary, or the Catholics in Poland—this was the incarnation of the theory of the alliance of religion and freedom which formed the *leitmotif* of Ed Opitz's work over the years.

If this venerable institution on the Hudson is the mother of all free-market think tanks, then Ed Opitz is one of the patriarchs of liberty-promoting clergy.

I am, in a sense, an heir to his legacy, and it is with an overwhelming sense of gratitude to Almighty God that I am aware of being merely one of Ed's intellectual descendants, though luckier than the others, because it is I who have the honor of giving voice to what I feel sure each of them would say.

Ed, in my person, your children rise up to call you blessed. In their name, I thank you. □

THE FREEMAN CLASSICS SERIES

by John Chamberlain

FREE, under the new dispensation of Hans Sennholz, has decided to refine the gold it has scattered about in its publications, particularly *The Freeman* magazine. By the beginning of 1993 it had published three collections: one, called *The Morality of Capitalism*; another, *Private Property and Political Control*; and the third, *Prices and Price Controls*. In addition, it has published a collection of many of the *Freeman* essays written by Henry Hazlitt, who died in July at age 98.

The authors of the books are well aware that capitalism is not perfect. They are also aware of the fact that capitalism is, to quote editor Mark Hendrickson, "morally as well as economically superior to every known alternative, such as socialism or the welfare state." Hans Sennholz does an informative introduction to *The Morality of Capitalism*. He notes that the critics of private property never tire of berating the profit motive. The critics "rail at successful merchants and shopkeepers, at wealthy bankers, stockbrokers, and capitalists." The critics "rave at advertising, marketing, and other business practices designed to inform and influence people in making economic decisions." But capitalism has its defenders: Orval Watts, Leonard Read, Ludwig von Mises, F. A. Hayek, Garet Garrett, Israel Kirzner. Their essays on the moral issues of our times have been taken from Paul Poirot's special editing of *The Freeman* over a thirty-year period.

Poirot sets the tone of the books with an

essay entitled "He Gains Most Who Serves Best." A businessman's profits measure his efficiency in the use of scarce and valuable resources to satisfy the most urgent wants of consumers. Ludwig von Mises notes that the consumer calls the turn. But under freedom there must be access to physical property. If the government owns all the printing presses, the possibility of printing opposing arguments becomes practically non-existent.

In his essay, "Think Twice Before You Disparage Capitalism," Perry Gresham says, "Capitalism is the one system of political economy which works, has worked, and will continue to work." The alternative system is socialism which tends toward tyranny and serfdom. Gresham has three pages of lyrical acclamation of capitalism. "It is no relic of Colonial America. It has the genius to change with the times and to meet the challenges of big industries, big unions, and big government if it can free itself from interest-group intervention, which eventuates in needless government spending." Capitalism, an economic system which believes with Locke and Jefferson in life, liberty, and property, and the inalienable rights of man, denies the "banal dichotomy between property values and human values. Property values are human values" (italics are Gresham's).

A reason for beginning with the selections in *The Morality of Capitalism* becomes apparent if you turn the whole business

around. Immoral capitalism is theft. It is an easy way to get capital, but it can't last. The Golden Rule and The Ten Commandments must be obeyed, lest people kill each other off.

Capitalism, so Gresham says, is belief in man. It recognizes the potential tyranny of any government. To quote, "The government is made for man, not man for the government. Therefore, government should be limited in size and function, lest free individuals lose their identity and become wards of the State. Frederic Bastiat has called the state a 'great fiction wherein everybody tries to live at the expense of everybody else.'"

Capitalism denies faith in the state to control wages and prices (see the third book in the FEE series, *Prices and Price Controls*). A fair price "is the amount agreed upon by the buyer and seller. Competition in a free market is far more trustworthy than any government administrator."

Capitalism gives a poor person the chance to become rich. It does not lock people into the condition of poverty. Capitalism offers full employment to those who wish to work. A worker is free to accept a job at any wage he can get. He can join with his fellow-workers in voluntary association to improve his salary and working conditions. He can start his own business. "Capitalism," says Gresham, "is a belief that nobody is wise enough and knows enough to control the lives of other people. . . . Capitalism respects the market as the only effective and fair means of allocating scarce goods. A free market responds to shortages and spurs production by rising prices. . . . Capitalism is a natural ally of religion. The Judeo-Christian doctrines of stewardship are reflected in a free market economy. . . . Capitalism depends on the family for much of its social and moral strength. When the family disintegrates, the capitalist order falls into confusion. . . . Dividends paid to those who invest capital in an enterprise are as worthy as interest paid to a depositor in a savings bank. The idea abroad that risk capital is unproductive is patently false."

"The consumer," says Gresham, "is sov-

ereign under capitalism. No bureaucrat, marketing expert, advertiser, politician, or self-appointed protector can tell him what to buy, sell, or make."

Property is necessary to capitalism. Individual rights are extensions of property rights. All rights depend upon property, according to the second book, *Private Property and Political Control*, which clarifies the inadequacies of the socialist concept of rights. □

Bankruptcy 1995: The Coming Collapse of America and How to Stop It

by Harry E. Figgie, Jr., with Gerald J. Swanson

Little, Brown & Co. • 221 pages • \$19.95

Reviewed by William H. Peterson

Something for nothing. A free lunch. Government as Santa Claus. How alluring! Hence nowadays a widespread defiance of the law of opportunity cost—the idea that every choice, public or private, involves a denial of the highest valued alternative benefit. In the public sector the denial may be political but isn't such defiance at the heart of modern government's penchant for central planning and deficit finance and its appalling record of mismanagement and wasted resources—of what Ludwig von Mises called "planned chaos"?

Author Harry E. Figgie, Jr., the head of the Cleveland-based \$1.3 billion conglomerate Figgie International Inc., seems to agree with the thesis that government interventionism and central planning spell trouble, that it is at best a zero-sum game and more likely a negative-sum game, that government has nothing to give save what it first takes away, that lunch is anything and anywhere but free. His book arrives as a new administration takes hold in Washington.

Bankruptcy 1995, with dozens of tables and graphs, with a foreword by former Senator Warren B. Rudman of New Hamp-

shire and written with the assistance of University of Arizona economist Gerald Swanson, constitutes a call to arms, a denunciation of America's growing \$4 trillion national debt, a forecast that interest on the national debt, now exceeding \$200 billion annually, is likely to soon become the biggest item in the federal budget, topping the outlays for the Pentagon or Social Security. Declares Senator Rudman, stunned at the planned chaos: "We are at war economically. Our nation's wealth is being drained drop by drop, because our government continues to mount record deficits and, in order to finance its obligations, puts us at the mercy of foreign lenders. The security of our country depends on the fiscal integrity of our government, and we're throwing it away. We're doing nothing to protect it; instead, it's politics as usual."

For his part Mr. Figgie decries the politics of interventionism, of free lunchism, and tells how America got into this mess. The telling adds up to a valuable lesson on why government is the problem and not the solution, on why government planning is an oxymoron. He notes how, for example, the Balanced Budget and Emergency Deficit Control Act of 1985, otherwise known as the Gramm-Rudman-Hollings Act, a carefully planned program of reining in budgetary excesses year by year, amounted to no more than a "waltz," to "public posturing." The revealing timetable of federal deficit reduction and actual deficits follows:

<i>Year</i>	<i>Target Deficits</i>	<i>Actual Deficits</i>
1987	\$144 billion	\$150 billion
1988	108 billion	155 billion
1989	72 billion	154 billion
1990	36 billion	221 billion
1991	0	269 billion

Mr. Figgie further decries what he calls "debtsspeak" or "budget chicanery," a kind of Washingtonese or Orwellian language in which "yes" means "no" and a budget "reduction" turns out to be a budget increase. In late 1990, for example, Congress

reported that its famous Capitol Hill-White House compromise budget, the one in which President Bush broke his "no-new-taxes-read-my-lips" pledge, would produce savings of 2.4 percent in 1991 and 4.8 percent in 1992. Savings? No way. Actual outlays climbed by 11.1 percent in 1991 and 16.2 percent in 1992. No wonder public opinion rates Congress in lower esteem than any other major group in society.

Still, how do we extricate ourselves from this trap? Counsels the author: Don't raise taxes—that would only blunt economic growth and encourage the spenders. And don't monetize debt—that would only mean more money chasing fewer goods, accelerating the inflationary cycle of boom and bust.

Instead, says Mr. Figgie, do cut spending, especially entitlements, and privatize, privatize, privatize. In sum, do declare war on fiscal irresponsibility and create a new private-public task force to wage it along the lines of the earlier Grace and Hoover Commissions.

The Figgie counsel makes sense but look at it from the viewpoint of politics: Would it reverse decades of successful shenanigans at budget manipulation that have driven down the U.S. dollar in real terms from 100 cents in 1941 to 10 cents in 1991? And doesn't it take two to tango—the politician and the citizen—the voter mesmerized by "free" government goodies, anxious to get his cut of the loot?

So the biggest value of the valuable Figgie book, it seems to me, may be its long-term role in helping to educate the citizen and his representatives in Washington and in other halls of government that political corruption is a function of interventionism, that privatization is the way to go, that nothing is for nothing, that political planning is for the birds, that the only way to get more and better lunches is to earn them. □

Dr. Peterson is an adjunct scholar at the Heritage Foundation and a Contributing Editor of The Freeman.

THE FREEMAN

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NOVEMBER
1993
VOL. 43
NO. 11

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$25.00 or more receive a subscription to *The Freeman*. Student subscriptions are \$10.00 for the nine-month academic year; \$5.00 per semester. Additional copies of single issues of *The Freeman* are \$2.00. For foreign delivery, a donation of \$40.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available on microfilm and CD-ROM from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. A computer diskette containing the articles from this month's issue is available from FEE for \$10.00; specify either 3½" or 5¼" format.

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PERSPECTIVE

Voluntarism in Health: A Forgotten Solution

In a period of escalating medical and insurance costs, the working poor are faced with inadequate medical care. They are people who exist on the edge of poverty and live without government assistance. They are proud and self-reliant. . . .

The Bradley Free Clinic in Roanoke, Virginia, exists to meet the needs of our community's less affluent with respect and dignity. Our mission is to provide medical, dental, and pharmaceutical care to the Roanoke Valley's working poor using volunteer professional staff. We are one of some 140 free clinics across the country offering family practice medical care to indigent patients.

The success of the Bradley Free Clinic lies in voluntarism, a time-honored American tradition that is often left out of discussions on how to remedy our country's health care ills. Until the advent of Medicare and Medicaid in the early 1960s, numerous hospitals operated with the primary intention of providing health care for the disenfranchised. The Bradley Free Clinic and others like it have revived this forgotten method of providing health care for those unable to afford it. They have again made it possible for the medical community to care for the poor without the costs imposed by bureaucratic intervention.

Physicians have been extending solace to the poor for decades, usually in a very quiet, low-key fashion; they do not need or wish publicity for these activities. Most physicians, then and now, hold that helping the poor is part of their professional responsibility. Free clinics provide an excellent opportunity for physicians to continue to help the poor in a clean, well-run, clinically contemporary setting. Through the coordination of their services, the physicians of Roanoke have proven this to be true.

—JOHN M. GARVIN, M.D., writing in *Philanthropy*, published by The Philanthropy Roundtable

The Kingdom That Gives Beethoven a C

What's happening in the world of arts subsidies says a lot about how modern governments are evolving. In the United States, there has been a contest between arts pressure groups and John Q. Public over subsidizing distasteful and pornographic art, and John Q. has lost. Across the Atlantic, in Great Britain, arts administrators are in the process of turning the whole theory of democracy upside down.

In Britain, the agency that doles out the subsidies is the Arts Council. Its music branch has developed quite distinctive tastes in composers, and it has decided to put taxpayer money where its mouth is. *The Independent*, a leading London newspaper, found that it had adopted a formula to simplify grant-giving, classifying composers into four grades.

At the bottom of the heap are the grade D composers who deserve no subsidy at all, old favorites like Johann Strauss and Edward Elgar. Grade C composers, a category which includes Beethoven, are worth a subsidy of only 450 pounds per concert. Grade B composers, including heavies like Mahler, merit 1,000 pounds.

Hitting the jackpot, at grade A, accorded a subsidy of 2,000 pounds sterling per concert, are Harrison Birtwhistle and Peter Maxwell Davies. These gentlemen are not rugby players or Arctic explorers. They are modern composers whose principal claim to fame is that the British public can't bear to listen to their music.

This grading system has upset concert organizers who naively supposed that it was their job to put on concerts that people wanted to come to, not stay away from. One promoter, Michael Blackledge, pointed out that he filled all 750 seats in Bedford's Corn Exchange when the concert featured politically incorrect Elgar and Delius, but that only 25 came when the approved modern composers were performed. He finds the grading system unworkable. "It's artistic interference with people on the

ground who know their audience," he said.

Years ago, when the idea of massive arts subsidies was first proposed, arts insiders had reason to be worried. They were perfectly aware that what they were doing wasn't art as far as the general public was concerned. If democracy worked the way it was supposed to, they would be left off the gravy train. Voters would communicate their desire for likeable music to their representatives, and they, in turn, would tell the civil servants to give the public what it wants. Arts administrators, doing their democratic duty, would contrive subsidy programs boosting Viennese waltzes and leaving Birtwhistle and his chums down at the wine bar in the dustbin of history.

Fortunately for the insiders, none of this happens. British arts administrators don't suppose for a minute that they are servants of the people. Indeed, they have become quite self-righteous about their duty to give the public what it doesn't want. The music director of the Arts Council, Kenneth Baird, was not apologetic or embarrassed when asked about the policy of emptying concert halls with grade-A dissonance. "We are happy with these categories," he said. "It is our duty to support the new and most adventurous, given that that is the least likely to appeal to audiences and sponsors."

Somewhere between John Locke and John Major democracy got left in the dustbin. The modern state does not function, as the theorists hoped it would, to translate popular desires into policy. It has given rise, as the arts subsidy scene clearly proves, to a more or less insulated class of public officials who use the power of the state to implement their own prejudices.

We used to call this arrangement taxation without representation, and it used to make us angry.

—JAMES L. PAYNE



THE ECONOMIC WAY OF THINKING

PART 2

by Ronald Nash

In the first part of this eight-part series, we learned that economics is the basic study of conscious, purposive human behavior. We also learned that the unavoidable fact of scarcity in life requires human beings to rank the things they regard as important and then make choices. The subject of this month's essay is the fact that all economic valuation is subjective.

Objective Theories of Economic Value

Anyone who observes how human beings act in economic exchanges can easily see how various things are thought to have more value than others. It is natural to wonder about this fact. What is it about one thing that makes it more valuable than another? Why do people want some things more than others? Why are some things so valued that people are willing to make significant sacrifices in order to obtain them?

Until the late nineteenth century, econo-

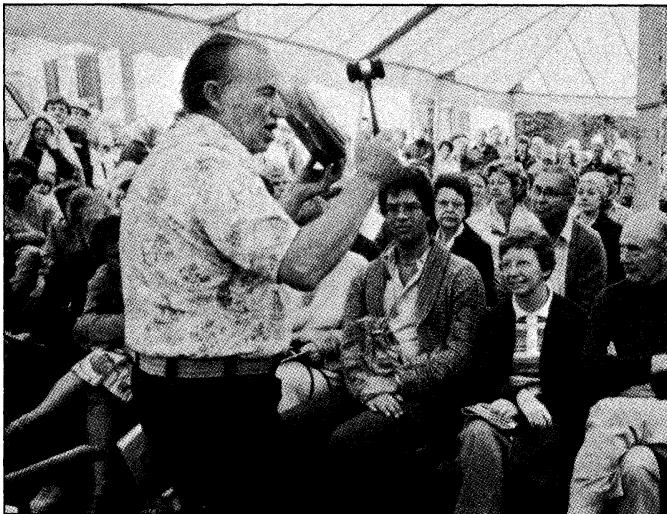
mists and philosophers tended to regard economic value as *objective*. That is, the value of the economic good was thought to be inherent in some way in that which was valued. One of the most influential of these objective theories of economic value appears in the writings of Karl Marx. Marx believed that the value of a good or service is determined to a great extent by its cost of production. Suppose, for example, that all of the production costs (including the cost of supplies, labor, and everything else) to make a pair of shoes amount to \$40. The value of those shoes (while new) then can never be less than \$40, according to this view. The value here is objective in the sense that a number of factors, having nothing to do with human preferences and wants, have given those new shoes that value.

Marx and others set forth a labor theory of value which held that economic goods derived their value from the quantity of labor required to produce them. Thus, even the machines used to manufacture shoes were valuable because they were "frozen labor time."

A little reflection should quickly raise doubts about any theory that holds that economic value is inherent in the good or service. For one thing, consider how many

Dr. Nash is a contributing editor to The Freeman and professor of philosophy and theology at Reformed Theological Seminary in Orlando. He is the author or editor of 25 books including Poverty and Wealth (Probe Books) and Social Justice and the Christian Church (University Press of America).

DOVER BOOKS



At an auction, items sold can bring prices far above or below their original purchase price, depending on how important that item is to the people attending the auction.

times retail merchants end up selling for less than their cost.

I happen to be a stamp collector. About a year ago, I paid \$3.00 for a recently issued U.S. stamp in a strip of three. The person from whom I purchased the strip of three coil stamps had paid 30 cents for them at the post office. Just last week, a similar strip of three stamps sold at an auction for over \$100. What happened to make these stamps different was a set of tiny plate numbers that appear once every 50 or so stamps in a coil roll. In this case, stamps with this particular set of plate numbers have turned out to be extremely rare. What is the "true value" of stamps like this? Is it the 30 cents charged by the post office or the \$3.00 charged by the retail merchant I dealt with or the much higher price at which strips like this are now traded? The simple answer is that the value of any economic good is no more and no less than what some individual will offer in exchange for it.

Another way to see the flaw in the belief that economic goods possess some intrinsic, objective value is to attend an auction. Items can bring prices far above or below their original purchase price, depending on how important that item is to the people attending the auction. The same principle is at work in the case of pawn shops and flea markets. Suppose one day that you are browsing through such a place and come across something that used to belong to your

family; perhaps it is associated with important events in your childhood. Since the person who sold this object to the merchant may have not attached the importance it has for you, he may have parted with it for a few dollars. Because of the value you impute to the object you might, if necessary, be willing to pay several hundred dollars for the same object.

Or consider two diamonds of equal size and quality. Imagine that one is simply found on the ground by chance; no effort or danger was involved in its discovery. Imagine that the second diamond comes out of a diamond mine where an enormous investment has been made in building and operating the mine. The men who work in such mines have a difficult and dangerous job. And so we have two diamonds: one cost little or nothing, while the second was produced at enormous cost. Imagine next that our two diamonds happen to be offered for sale at the same auction. The two diamonds might easily sell for similar prices. What this shows is that the value of the two diamonds bears no relation to their respective costs.

At this point, someone might raise an objection to the conclusion I draw from the diamond example. My example illustrates the fact that value and cost are not necessarily related. But does it not show, my critic might say, that value still bears a relationship to the objective properties or characteristics of the thing? My example

stipulated that the two diamonds were similar in size and quality. Does it not follow that their similar "value" reflects the fact that their objective characteristics are so much alike?

It is true that the two diamonds had similar objective properties. It is also true (in my example) that they sold for prices that reflect a similar value. In this particular case, the closely related prices only reflect the fact that two buyers placed much the same value on them; this might well have been a function of the objective features of the diamonds. After all, if two things are practically the same, they can be substituted for each other. The hamburgers I can buy at the McDonald's on the north end of town are indistinguishable from those I can buy from the McDonald's at the south end of town. Because they are so much alike, most potential buyers will treat them as equal in value. But the economic value is not inherent in the hamburgers any more than it is in the diamonds. The value is imputed to the thing by an individual valuer. Obviously, people take the objective features of things into account when imputing such value.

It would be a mistake to assume that just because two diamonds or two hamburgers sell for the same price, they must therefore be equal in "objective value." What two buyers are willing to exchange for an article reflects their separate personal valuation of that good. It is possible that two diamonds of different size and quality might sell for the same price. Any number of personal, subjective considerations might lead two buyers to offer the same price for goods with different properties. On the other hand, two similar diamonds might sell for different prices at auction, if buyers do not impute similar value to them.

In the last third of the nineteenth century several economists began to argue that economic value is entirely subjective; it exists in the mind of the person who imputes value to the good or service. If something has economic value, it is because someone values it; it is because that good or service satisfies a human want. The idea of imputation became central in economic thought.

The older, objective view of economic value tended to focus exclusively upon physical things and the ways humans sought to fulfill their purely material desires. It also gave inordinate attention to the role that money played in human efforts to bridge the gap between what people had and what they wanted. However, the subjective revolution in economics changed all this. Once economists recognized the personal and subjective ground of economic value, economists broadened their horizon to include all purposive human actions in their field of study. The scope of economics was expanded to include things other than money and material goods.

Many people value such things as truth, love, honor, friendship, virtue, and charity more than they value money, cars, clothes, and houses. Because such people rank truth, love, and honor so high in their personal value scales, their economic choices will reflect this ranking. The conscious, purposive actions of such people can be explained by economists who hold to a subjective theory of economic value. All the values a person holds affect the decisions he makes.

It is important to recognize that when economists state that economic value is subjective, they do *not* restrict the subjective ground of economic value to personal tastes. The fact that Jones and Smith impute different value to the same good does not necessarily reflect their differing tastes about the good. The value that people impute to things is also related to such factors as different information, different interpretations of information, different expectations, and different quantities they already possess. It may also reflect varying degrees of alertness to new opportunities. Far more is involved in the subjective approach to economic value than personal taste. But what is clear is that economic value is always imputed value.

A Religious Objection

Many religious people who are not economists find it difficult to reconcile claims that

economic value is subjective with their conviction that value is always objective, absolute, and unchanging. Some might think that accepting the view expressed in this essay would commit them to believing that all values are relative and subjective. The fallacy in such reasoning should be obvious. Even if we should discover that *some* values (in one sense of the word *value*) are subjective and relative, it would not follow that *all* values are.

Much of the problem at this point arises from the fact that the word *value* is ambiguous. It may refer (1) to that which people do in fact value or (2) to that which people ought to value. We all recognize that many people value things that they ought not to value, and that they fail to value things that they ought to value.

We sometimes express the difference between these two senses of *value* by using the words *desired* and *desirable*. All that is required for something to be desired is for someone in fact to desire it. But just because something is desired, it does not follow that it is *desirable*, that it ought to be desired. In economics, value reflects the extent to which something is desired; it does not mirror that thing's desirability. Economists have ways of measuring the degrees to which people desire things; obviously, this is something quite different from attempting to measure how desirable it is. No matter how much people ought to desire something, the economic price of that thing will reflect only how much some individual is willing to pay for one additional unit of it. The price of an economic good reflects the extent to which individuals desire it; and this is something quite apart from the question of how desirable or worthy it is.

Religious people, whether they are economists or not, need to keep two things distinct. The first is the degree to which an individual may want *X*, a fact that reflects where *X* ranks in that individual's personal scale of values. The second is the need of individuals to alter the rankings in their personal scales of values to conform to what they ought to want. Christians, for example, are undoubtedly correct when they judge

that their Scriptures oblige them to change the evaluations of themselves and others in order to bring them more in line with the evaluations stated in the Bible. While this task is clearly important, it is an activity that falls under a different heading than economics. Economic exchanges in the real world will mirror only the actual subjective value that individuals have imputed to the goods being exchanged. Any number of things, including conversion, may affect the way people rank things in their personal value scales. Whenever such a change in subjective value occurs, it will have an obvious impact on the judgments people make about the costs they are willing to incur to have one more or one less unit of some good. The result is that the array of goods produced and traded in the market will change as the personal value scales of individuals change.

The theory of subjective economic value does not imply that all economic choices are equally good in a moral or religious sense. Anyone is within his philosophical and theological rights to criticize particular economic choices. No defender of the market economy is required to defend all the goods produced by the market. It seems clear, therefore, that any objection to the theory of subjective economic value on theological or moral grounds is mistaken. In fact, it is from Christian theology that economics borrowed its central concept of imputed value. Telling people that certain values ought to be ranked higher in their preference scales is the proper task of the pastor, moralist, theologian, or spiritual counselor. The economist simply deals with how people do in fact make their choices with regard to the allocation of scarce resources.

Looking Ahead

Because of its importance, the notion of subjective economic value will be encountered repeatedly through the rest of our eight-part series. The ability of the reader to recognize these appearances will be an important sign of developing adeptness in the economic way of thinking. □

NATIONAL HEALTH CARE: MEDICINE IN GERMANY 1918–1945

by Marc S. Micozzi, M.D.

Today we are concerned about issues such as doctor-assisted suicide, abortion, the use of fetal tissue, genetic screening, birth control and sterilization, health-care rationing and the ethics of medical research on animals and humans. These subjects are major challenges in both ethics and economics at the end of the twentieth century. But at the beginning of the twentieth century the desire to create a more scientific medical practice and research had already raised the issues of euthanasia, eugenics, and medical experimentation on human subjects. In addition, the increasing involvement of the German government in medical care and funding medical research established the government-medical complex that the National Socialists later used to execute their extermination policies.

The German social insurance and health care system began in the 1880s under Bismarck. Ironically, it was part of Bismarck's "anti-socialist" legislation, adopted under

the theory that a little socialism would prevent the rise of a more virulent socialism.

By the time of Weimar, German doctors had become accustomed to cooperating with the government in the provision of medical care. The reforms of the Weimar Republic following the medical crises of World War I included government policies to provide health care services to all citizens. Socially minded physicians placed great hope in a new health care system, calling for a single state agency to overcome fragmentation and the lack of influence of individual practitioners and local services. The focus of medicine shifted from private practice to public health and from treating disease to preventable health care. During the German "economic consolidation" of 1924–1928, public health improved under new laws against tuberculosis, venereal disease, and alcoholism, with new advisory centers for chemical dependency and counseling bureaus for marriage and sexual problems.

Medical concerns which had largely been in the private domain in the nineteenth century increasingly became a concern of the state. The physician began to be transformed into a functionary of state-initiated laws and policies. Doctors slowly began to

Marc S. Micozzi, M.D., Ph.D., a physician and anthropologist, directs the National Museum of Health and Medicine in Washington, D.C., which recently brought from Berlin the exhibition, "The Value of the Human Being: Medicine in Germany 1918–1945," curated by Christian Pross and Götz Aly.

see themselves as more responsible for the public health of the nation than for the individual health of the patient. It is one thing to see oneself as responsible for the "nation's health" and quite another to be responsible for an individual patient's health. It is one thing to be employed by an individual, another to be employed by the government.

Under the Weimar Republic these reforms resulted in clearly improved public health. However, the creativity, energy, and fundamental reforms found in social medicine during the Weimar Republic seem in retrospect a short and deceptive illusion. Medical reformers had wanted to counter the misery inherited from the first World War and the Second Empire on the basis of comprehensive disease prevention programs. In the few years available to the social reformers, they had remarkable success. But in connection with these reforms the doctor's role changed from that of advocate, adviser, and partner of the patient to a partner of the state.

Where traditional individual ethics and Christian charity had once stood, the reformers posited a collective ethic for the benefit of the general population. Private charity and welfare were nationalized. The mentally ill, for example, having been literally released from their chains in the nineteenth century and placed in local communities and boarding houses in regular contact with others (the so-called "moral therapy"), were returned to state institutions to become the ultimate victims of state "solutions."

With the world economic crisis of 1929, welfare state expenditures had to be reduced for housing, nutrition, support payments, recreation and rehabilitation, and maternal and child health. What remained of the humanistic goals of reform were state mechanisms for inspection and regulation of public health and medical practice. Economic efficiency became the major concern, and health care became primarily a question of cost-benefit analysis. Under the socialist policies of the period, this analysis was necessarily applied to the selection of strong

persons, deemed worthy of support, and the elimination of weak and "unproductive" people. The scientific underpinning of cost-benefit analyses to political medical care was provided by the new fields of genetics and eugenics.

Genetics and Eugenics

At the same time as these economic and political developments, the application of nineteenth-century scientific discoveries began to make their way into twentieth-century public health and medical practice. Charles Darwin's studies on natural selection were of course based upon animal populations living in nature and not human populations living in complex societies. But the biological basis of natural selection gave rise to a concept of "survival of the fittest" in human civilizations. This term was coined by the British social anthropologist Herbert Spencer, and the concept led to "Social Darwinism."

Darwin's theories (developed in parallel with Alfred Russel Wallace—another British natural scientist) had been published prior to full elucidation of the principles of genetics. With subsequent understanding and acceptance of the science of genetics, the underlying basis of natural selection could more completely be described. While scientists still did not understand what made up the gene (awaiting Watson and Crick's discovery of DNA in the 1950s) they began to search for outward expression of inner genetic tendencies. In the absence of being able to pinpoint individual genes, they sought outward expression of genetic "types." These "typologies" were largely based upon external measurements of the body.

Much of this work was carried out by German anthropologists and physicians (often one and the same at that time) in newly acquired colonies in German East and Southwest Africa, prior to the loss of these colonies to Allied protectorates in World War I. Such work resumed following the war, however, and by 1927 the opening of the Kaiser Wilhelm Institute of Anthropology

ogy, Human Genetics, and Eugenics was celebrated in Berlin as the advent of the "German Oxford." The annual report of the Institute in 1932 stated: "The term eugenics means to establish a connection between the results of the studies in human genetics and practical measures in population policy."

Under the new "scientific understanding" of human biology provided by genetics and its implementation under eugenics, poverty, for example, would become merely an expression of degeneracy (*Entartung*) and genetic inferiority. "Inferior" and "superior" became natural terms used by persons of nearly all political persuasions, as readily as the terms "handicapped," "impaired," "socially dependent," or "disadvantaged" are used today.

Life Unworthy of Living

Following World War I there had been concern among some in Germany that the war had decimated the ranks of the qualified and strong while weak, unqualified, and inferior people had been spared. Many felt that scant resources should not be wasted on the sick and suffering. The philosophy of the unimportance of the individual in favor of the people (*das Volk*) led to the belief that individuals who had become "worthless, defective parts" had to be "sacrificed or discarded."

Alfred Hoche, a neuropathologist (as Freud had been) and Karl Binding, a lawyer, published a pamphlet in 1922, *The Sanctioning of the Destruction of Life Unworthy of Living*. Binding relativized the legal and moral prohibition, "Thou shalt not kill," and Hoche alternated between economic and medical arguments. Neurologists in Saxony formally discussed the topic, "Are Doctors Allowed to Kill?" A physician in Dresden pointed out "the contradiction that many persons (reformers) demand an end to the death penalty for crimes, but the same people are for putting imbeciles [*sic*] to death." By the time the National Socialist Party came to power in Germany, the mentally ill and the mentally retarded had begun to be sterilized and to be subjected to

euthanasia in large numbers in German government institutions.

National Socialism and the Nation's Health

No profession in Germany became so numerically attached to National Socialism in both its leadership and membership as was the medical profession. Because of their philosophical orientation toward finding a more scientific basis for medical research and practice, government funding for research, and the practical benefits of acquiring university positions and medical practices from the many banned and exiled German Jewish doctors, many physicians supported Nazi policies. One of the first Nazi laws, passed July 14, 1933, was the "Law for the Prevention of Progeny of Hereditary Disease," intended to "consolidate" social and health policies in the German population and prohibit the right of reproduction for persons defined as "genetically inferior." After 1933, the connection between the theory and practice of politicized medicine advocated by many in Weimar Germany became actual in Nazi Germany.

A "Genetic Health Court" consisting of judges and doctors made decisions about forcible sterilization. As "advocates of the state," doctors prosecuted those persons charged with being "genetically ill" in sessions lasting generally no more than ten minutes and from which the public was barred. In 1935, an adjunct law allowed forcible abortion in such cases up to the sixth month of pregnancy. A total of 300,000 to 400,000 were sterilized and approximately 5,000 (nearly all women) died as a result of these operations. After 1945, it was argued to the Restitution Claims Commission of the German Bundestag that the "Law for the Prevention of Progeny of Hereditary Disease" not be considered in the same category as subsequent National Socialist race laws and other Nazi abuses. The sterilization law had been drafted earlier under the Weimar Republic as part of progressive health reform, and as late as

1961 was defended by an expert at the Max Planck Institute on the basis that “every cultured nation needs eugenics, and in the atomic age, more so than ever before.”

German Youth and Euthanasia

Following the sterilization laws, the National Socialists next implemented a strategy of euthanasia to solve the remaining problem of those whose conception and birth had preceded these laws. The pediatrician Ernst Wentzler, while developing plans to improve care in the German Children’s Hospitals in Berlin, personally decided (as consultant to Hitler’s Chancellery) on the deaths of thousands of handicapped children. Hans Nachtsheim placed delivery orders for handicapped children for his pressure chamber experiments on epilepsy. Joseph Mengele delivered genetic and anthropological “material” from Auschwitz to the Kaiser Wilhelm Institute and conducted his infamous twin experiments on the child victims of the Holocaust.

Julius Hallervorden at the Kaiser Wilhelm Institute for Brain Research at Berlin-Buch carried out several research projects based on euthanasia programs. Hallervorden and others systematically collected the brains of their patients who had been killed, taught the murdering doctors how to dissect, and cooperated closely with institutions where murdered children had previously been given thorough examinations and tests. During interrogation by an American officer in 1945, he stated, “I heard that they were going to do that . . . and told them . . . if you are going to kill all these people, at least take the brains . . . There was wonderful material among these brains—beautiful mental defectives, malformations and early infantile disease. I accepted these brains, of course. Where they came from and how they came to me, was really none of my business.” The collection was until recently kept by the Max Planck Institute (formerly the Kaiser Wilhelm Institute) in Frankfurt and used for brain research.

In a system in which so many were routinely condemned to die, the temptation

proved strong to use human subjects in medical experimentation prior to their tragic and terrible deaths.

The Luftwaffe had developed aircraft which could climb to altitudes of nearly 60,000 feet, altitudes unattainable by Allied fighter aircraft. However, tolerance of these altitudes on the part of pilots had not yet been tested. Trials on volunteers at altitudes above 36,000 feet had to be discontinued due to severe pain. For this reason, lethal altitude experiments in pressure chambers were conducted on 200 victims held prisoner in Dachau concentration camp in a program called: “Trials for Saving Persons at High Altitude.”

Many German ships were also being sunk in the North Atlantic and North Sea, and the same group of medical investigators conducted painful ice bath experiments on 300 Dachau prisoners in a research program entitled “Avoidance and Treatment of Hypothermia in Water.” Other medical experiments were carried out with chemical and biological warfare agents and infectious diseases.

Following World War II much of this data was kept classified by Allied military authorities on the basis of national security. Debate continues to this day on the validity of these experiments and the ethical implications of any use of such data.

The Banality of Evil

We now know the end of this historical horror story of massive crimes against humanity and the leader of the thousand-year Reich burning in a bunker in Berlin. But it is not so easy to recognize the steps on the path down the slippery slope when we don’t yet know the end of the story—as today we do not know which social health reforms in combination with which new medical technologies have the potential to plunge modern society over a brink in which disaster might result. Is legalized abortion a new form of medicide? Is doctor-assisted suicide a step toward positive euthanasia? Is modern genetic testing and the Human Genome Project the first step to a new eugenics? Is

Dr. Robert Ritter of the German National Department of Health (right) and his associates carried out anthropological measurements and genealogical research. They prepared fingerprints and photographs in order to ascertain the "proportion of gypsy blood" in all of the Sinti and Roma of "Greater Germany."

Nazi medicine was implemented by a political-medical complex, a scientific and social philosophy imposed by a totalitarian regime.

FROM THE EXHIBITION, "THE VALUE OF THE HUMAN BEING."



health care rationing, which is always a result of government involvement in medical care, a step toward the new definition of "life unworthy of living"? Is our present "quality of life index" a new way of saying it?

Nazi medicine was implemented by a political-medical complex—on the basis of political health care—a scientific and social philosophy imposed by a totalitarian regime. It should never happen again, but could it ever happen again?

In the United States the medical profession operates in a mixed (not a national socialist) economy which does not yet have the institutionalized mechanisms of control and regulation of Weimar Germany—and in a democratic political system which thankfully does not have the political ideology of the Third Reich. But the "banality of evil" described by Hannah Arendt in the Third Reich may stem largely from a government bureaucracy in which 90 percent of the people think 90 percent of the time about process—not purpose. Does the modern bureaucratization of medicine hold any real risk for a possible return—with new health reforms and new medical technologies—to some of the horrors of National Socialist medicine? Removal of personal responsibility ("I was only following orders"), personal authority, and personal choice in a bureaucratized system may leave less and

less room for individual ethics in the conduct of medical science and practice.

Politicized medicine is not a sufficient cause of the mass extermination of human beings, but it seems to be a necessary cause. The Nazi Holocaust did not happen for some inexplicable German reason; it is not an event that we can afford to ignore because we are not Germans or not Nazis. The history of Germany from 1914 to 1945 is a telescoping of modernity—from monarchy, war, and collapse to democracy and the welfare state, and finally to dictatorship, war, and death.

Medical ethics is the responsibility of all members of a society, not just doctors and scientists. Medicine and science alone do not have the answers to such questions as: When does life begin? When should it end? Are humans just the sum of their genetic parts or genetic programs? While bioethicists debate, individual medical choices are made a million times a day among doctors, patients, their families, and increasingly the government. The product of all these choices ultimately constitutes the ethical, legal, and social framework in which the practice of medicine and of medical research are conducted. In the end it is the preservation of freedom that will guide us to the best application of new health reforms and technologies in the future. □

MEDICINE AND THE WELFARE STATE

by Melchior Palyi

The essential idea of the Welfare State is as old as known history. Its concept and mechanism—the systematic dispensing, through political channels and without regard to productivity, of domestic wealth—were at the very core of the Greco-Latin city states, of the medieval city, and of the post-Renaissance absolute monarchy. In the city republics, ancient and medieval, it meant bloody civil wars. Their constantly recurring violent quarrels about constitutional issues disguised bitter class warfare to seize the power that was dispensing all benefits. Most of them went on the rocks of their internal struggles for economic privileges. A Lorenzo Magnifico in Florence or the Oligarchy of the Ten in Venice managed to “save” their cities—by grabbing the power and robbing the citizens of every vestige of political freedom and civic rights. Jacob Burckhardt’s allegation that the orgy of paternalism under Emperor Diocletian resulted in governmental money recipients larger in number than the taxpayers, might be applicable to many other doomed civilizations.

France’s Henry IV in the sixteenth century promised a chicken in every pot. Her brilliant Colbert in the seventeenth century and Prussia’s enlightened Frederick the Great in the eighteenth, these forerunners of

modern dictators, gloried in calling themselves the first servants of the nation. Their police state used the welfare state as its instrument, façade, and justification, as do modern dictatorships. In democracies the welfare state is the beginning and the police state the end. The two merge sooner or later, in all experience, and for obvious reasons.

The “mercantilist” princes of the sixteenth and eighteenth centuries developed the basic tenets of the modern welfare state in a piecemeal fashion. Originally their prime concern was the balance of trade—the want of gold and silver. To that, domestic policy was subordinated, except when political motives were uppermost, such as the fear of hunger riots which occurred time and again in England under the Tudors and Stuarts, forcing them to dispense humanitarianism. The craving for export surpluses led logically to promoting production. Amateurish welfare policies followed and soon became a determining factor in domestic politics.

The Welfare-Police State

In central Europe the eighteenth century was marked by the “Despotism of Virtue,” exercised by benevolent rulers like Joseph II of Austria. The intolerance and intransigence of the “humanitarian tyrant” had no small role in provoking revolutions. The German *Kameralists* of the period, who taught the technique of civil government, developed systematically the blueprint of

Dr. Palyi (1892–1970) taught at the Universities of Kiel, Göttingen, Berlin, Chicago, Wisconsin, and at Northwestern University. This essay was adapted from Compulsory Medical Care and the Welfare State (Chicago: National Institute of Professional Services, 1949).

the welfare state (*Wohlfahrtstaat*) of a territorial scope, far beyond medieval city limits and as the heart of the police state (*Polizeistaat*). Even the words are eighteenth-century German. This tradition of bureaucratic rule—for the alleged good of the subjects—was the heritage taken over by Bismarck.

Bismarck's fundamentally significant role in modern history is rarely understood. His middle-of-the-road socialism was the connecting link between the old autocrats and the coming totalitarians. He thought he could overcome Marxism by his own brand of state socialism—just as Fabian socialists, Keynesians, and New Dealers profess that their middle-of-the-road statism keeps the totalitarian wolf from the door.

What Bismarck did accomplish was to revolutionize the old authoritarian school by giving it a quasi-democratic twist and by basing it on a superbly organized, technically well-trained, and thoroughly disciplined bureaucracy. His police-welfare (or welfare-police) state had firm roots as none had had before. The substance of a military monarchy was wrapped in a parliamentary cloak. Share-the-wealth popularity was to be dispensed legally by an all-powerful and efficient administration.

Welfarism in Operation

Even more interesting than to follow the historical records of the welfare state is to witness directly its contemporary gyrations and its ties with other facets of public policy. This writer was "conditioned" to the problems by early acquaintance with the petty inside-politics in the welfare monarchy of the Habsburgs. His conscious interest dates back to his studies in German universities from 1910 on, when the great masters of the German Historical School still were exerting intellectual leadership. The German public, and most Europeans for that matter, stood under the spell of Bismarck's forceful personality, without realizing where that spirit was leading. The intelligentsia was infatuated already with the then still misty ideal of the welfare-dispens-



Otto von Bismarck
(1815–1898)

ing Iron Power. So was the populace on the street.

It was my good fortune, in particular, to come in close contact, as their student and assistant, with the two most original thinkers and most brilliant personalities of the period: Lujo Brentano and Max Weber, the foremost social scientists of their age. They were scholars of encyclopedic scope and of statesmanlike stature, animated by the ethos of their belief in liberty and justice. As true liberals, they stood in matters of labor policy for trade unionism, the eight-hour day, and for factory legislation, as far as compatible with domestic free enterprise and international free trade. They were opposed to dogmatic laissez-faire—which meant paternalism in labor relations—as well as to paternalism in government. Realizing that history is the record of the eternal battle between the power and the people, they saw clouds rising that most of their contemporaries ignored: the aggressive economic nationalism and the congealing, overbearing bureaucratism of the Neo-Welfare State. They saw the unique part Bismarck's Second Reich played in the revival of authori-

tarianism and fought it as a threat to the progress of occidental civilization.

As early as 1881, Lujo Brentano warned that adventuring into governmentalized medicine is the first step toward the Neo-Welfare State, which in turn opens up a road to national catastrophe—in the long run. The run was too long and too slow to be understood. Other more urgent problems occupied our minds. The warning was practically forgotten by 1919 when I gave my first courses as an instructor at the Munich Graduate School of Commerce on Insurance and on Cooperatives. Compulsory medicine seemed to be well established and a minor problem. In-between years, spent on (unfinished) medical studies, provided no inkling of its practical functioning. The prevailing academic pattern naively accepted a governmentalized pseudo-insurance as a chapter of *Sozialpolitik* (welfare policy), differing from other insurance only by its non-profit character. And it was defended as an alleged necessity in industrial society.

Intermezzo

We were preoccupied with the Versailles treaty, the great inflation and domestic and international reconstruction, and the sweeping out of the moral and material debris left over by Ludendorff. Europe's fatal fourteen years of transition after World War I began under the Lenin nightmare and ended with the Hitler chimera. True liberals were driven into an unholy and futile alliance with the middle-of-the-roaders.

After years of experience and study in international banking and public finance, I began to see that what most of my academic colleagues accepted and defended as an accomplished fact, the Bismarckian social insurance, was worm-eaten at its very roots. What have "high finance" and international affairs to do with the poor man's compulsory social insurance? A great deal, as I found out, and with more than finance. For one thing, the social insurance funds gave the welfarist Weimar government a dangerous foothold in the nation's capital market and taught it to grab for other footholds.

For another thing, I stumbled upon the discovery that German compulsory medicine was more expensive than private health insurance and gave less in exchange. On top of that, it was badly infected with corruption.

Insight into some of these shortcomings came about through my friendship with an outstanding socialist leader, old Eduard Bernstein. He was one of the three or four early apostles of the Marxian creed. But he lacked the fanatic dogmatism of the others. He became famous by speaking out in the 1890s what every Marxist knew and none dared to say—that history was not marching according to the time-table of the class-warfare theory. For this, he was temporarily ostracized by his own party. Through his honest eyes, I began to see that everything was not in order in the medical Utopia. The more I looked into it, the more disquieting the picture became.

From Weimar to Hitler

The welfare state was moving into the great depression. My work at the very center of German and international banking put me at a vantage point from which to observe closely the world-wide growth of Welfarism. It was intimately tied up with the political scene of the 1920s, with its global money management and fictitious pacifism. It was supported by monopolistic wage structures, governmentally promoted international cartels, inflated gold exchange standards, by a centrally manipulated capital flow on the one end and by reckless spending on the other. It had to break down sooner or later.

In many ways Hitler's rise was startlingly revealing. That one-third of the otherwise sober German people voted Nazi, and over 10 percent Communist, was bad enough. But what about the rest, the three or four *bourgeois* parties and the Social Democrats? Why didn't they resist instead of letting the power slip without a single shot into the hands of notorious gangsters? The Social Democrats and the trade unions behind them constituted the world's

oldest, largest, best organized, and most intelligent labor movement. Why did they surrender shamefully and let themselves be disarmed?

The Weimar Republic catered to the trade unions and raised the wage level artificially, at the same time bestowing subsidies and high tariff protection on the heavy industries and the big landowners, the Prussian *Junkers*. Once a nation is entangled in the meshes of the welfare state, the demagogue who can draw out of his hat more welfare for more people has every chance in a crisis. The Bismarckian paternalism could be turned into Ludendorff's planned economy by a mere switch of the bureaucratic gear, which then could be shifted without grinding into the welfare state of the Weimar Republic. As that got into trouble, the ultimate of demagoguery, the combination of ultra-nationalism and super-welfarism, had a field day. By that time, the socialists as well as the middle classes were so intoxicated with the ideas of an allegedly inevitable state paternalism that the moral fiber had become too weak to generate resistance.

Humanitarians in Disguise

Perhaps the most spectacular "social" aspect of Nazism was its emphasis on nationalism. That was not accidental. The health, or rather sickness, propaganda employed by Bismarck elevated that aspect of social welfare to a prime political issue. Just why were such ruthless men as Bismarck and Hitler so profoundly interested in the physical well-being of their subjects—and in high birthrates!—while totally indifferent, nay, inimical to their mental integrity! But after a fashion so were their predecessors in the Mercantilist age, especially the ministers of the imperialistic Bourbons and the power-lusty Hohenzollerns. And so are their successors to this day.

Evidently, more than humanitarianism was at stake. Watching the world-wide growth of compulsory health insurance, from Icelandic fishermen to coal miners in China, I noticed something that seemed to be overlooked: that all modern dictators—

Communist, fascist, or disguised—have at least one thing in common. They all believe in social security, especially in coercing people into governmentalized medicine.

A *selected list* of men who have claimed credit for, or have been credited with, introducing or strengthening and expanding governmentalized medical care reads like an extraordinary Who's Who:

- Prince Otto von Bismarck, Chancellor of Germany (1884);
Franz Joseph I, Emperor of Austria (1888);
Franz Joseph I, King of Hungary (1891);
Wilhelm II, "the Kaiser" of Germany (1911);
Admiral Miklos Horthy, reorganizing the scheme as Regent of Hungary (1927);
Nicholas II, Czar of Russia (1911);
Vladimir Lenin-Ulianov, founder of modern dictatorship in Soviet Russia (1922);
Joseph Stalin-Dzhugashvili, almighty Prime Minister and dictator of the U.S.S.R.;
Joseph Pilsudski, Marshal and para-dictator of Poland (1920);
Alexander I, King and dictator of Yugoslavia (1922);
Antonio de Oliveira Salazar, the professor-dictator of Portugal (1919 and 1933);
Benito Mussolini, Prime Minister and the Duce of Italy (1932 and 1943);
Francisco Franco, military dictator of Spain (1942 and 1945);
Yoshihito, Mikado of Japan (1922);
Hirohito, Mikado of Japan (1934);
Carol II, pseudo-constitutional King of Romania (1933);
Joseph Vargas, President and would-be dictator of Brazil (1944);
Juan Perón, President and boss of the military *junta* of Argentina (1944);
Adolf Hitler, Chancellor, the *Führer* of Germany (1933, etc.);
Pierre Laval, Prime Minister of France (1930), later executed for his fascist activities;
Ambroise Croizat, Communist Minister of Labor in France (1945);
Georgi Dimitrov, the late chief agent of the global Comintern, Premier of Sovietized Bulgaria (1948);

Josip Broz, alias Tito, Prime and Foreign Minister, dictator, general secretary of the Communist Party of Yugoslavia (1947); Boleslaw Bierut, President and dictatorial figure-head of Satellite Poland (1947); Klement Gottwald, President of the Sovietized Republic of Czechoslovakia (1948).

This list of power dynamos—or symbols of power—with bleeding hearts for human suffering is by no means complete. Complete data on some of the Satellite and Latin American bosses are not available. Some others are missing because they do not qualify technically for membership in the club of recognized full and semi-dictators and of paternalistic rulers “by the grace of God” or otherwise, having been elected in ordinary democratic procedures and still exposed to new elections. But who would have foreseen that an easy-going, money-grabbing politician like Laval was to become a sort of second-hand Mussolini? Most certainly Laval claimed and wielded, about 1930, less than a fraction of the discretionary and arbitrary power the British Health Minister wields at this writing. And there are more Pierre Lavals and Aneurin Bevans around in what we call the democratic world than the unsophisticated might assume. They manage to be re-elected again and again and strive to rule by blank delegations of power, immune from judicial controls and supported by rubber-stamp parliaments typical of “advanced” welfare states of twentieth-century vintage.

Socialist Nationalism

Indeed, out of the ashes of the welfare states that went down unsung in the tumultuous depression new and much more imposing ones have risen since. It seems that history is running in cycles, progressing from what is known as National Socialism to what is recognized as Socialist Nationalism.

Ever since Bismarck, great dictators and little demagogues compete with one another and with the humanitarians in courting the favor of the ailing, the lame, the blind, the poor, the underprivileged, and the aged. In

World War I, Ludendorff used Germany’s social insurance, then Europe’s most “progressive,” for propagandizing Teutonic social and cultural superiority. Today, British and French propagandists vie with each other in eulogizing the respective security plans. But Stalin outdoes all of them. “Government insurance in the U.S.S.R. is a source of pride of the Soviet workers before the whole world. It is one of the jewels in the colossal edifice of Socialism. It is one of the testimonials to *Stalin’s deep solicitude for his fellow men* by which we are all warmed and heartened,” said *Trud*, the organ of the Soviet trade unions, in 1937.

The great French visionary, Alexis de Tocqueville (*De la Démocratie en Amérique*, 1840), warned more than a century ago that democracies like ours may succumb to a new and soft technique of governmental benevolence that subdues all individuality. The suspicion that the solicitude of notorious tyrants for the welfare of their subjects must have something to do with the political nature of the medical security systems was one consideration that inspired this study.

From Bismarck to Lenin: Origin and Rise of Compulsory Medicine

Obligatory health insurance started moderately enough—in Prussia. Compulsion under a law of 1845 was left in the hands of municipal administrations, with no government subsidy involved, and no contributions from employers. The anti-socialist law of 1878 suppressed many of labor’s voluntary associations for sickness benefits. The next step was the governmentalization of the associations’ functions.

It was no mere accident that the ideological forefathers of Nazism, Adolf Wagner and Eugen Dühring, happened to be the “brain trustees” behind Bismarck’s “nationalistic socialism to end international socialism,” using his own terms. When, on January 1, 1884, his compulsory sickness scheme went into operation it literally started a new era—a new age in the history of welfarism.

Bismarck's role in modern history is rarely spoken of nowadays. Undoubtedly, his political and administrative "genius" has shaped history down to our times. His revolutionary innovation in welfare policy was preceded five years before, in 1879, by the imposition of a protective tariff that started Europe's internecine commercial warfare which endures to this day. And it was followed by the introduction in 1889 of universal military service covering even the middle-aged manhood. This started a re-armament race leading into total wars with the objective of annihilating entire nations.

The shrewd Iron Chancellor—the dictator in constitutional disguise, quoting M. J. Bonn's epigram—meant to kill several birds with one stone when he embarked on his program of appeasing labor. The reason, announced in the November 17, 1881, message of Emperor William I, to offer something positive to labor, not merely the repression of socialists by police force, may have been born of genuine worry over the unrest of the working classes due to the long depression that had engulfed Europe since 1875. But the true motive has been pointed out in the penetrating Bismarck biography (Vol. III, pp. 370–371) of Erich Eyck: "To his mind the State, by aiding the workers, should not only fulfill the duty ordered by religion, but it should obtain in particular a claim on their thankfulness, a gratitude that was to be shown by loyalty to the government and by loyal pro-government votes in elections." In other words, it was the old-fashioned attempt of the monarchy to ally itself with the *plebs* against the "aristocracy" in between the two. However, the social insurance legislation did not stop the Marxists from returning in increasing parliamentary strength. The attempt to subdue the socialist movement by appeasement ended in a political fiasco.

Prince Bismarck found other satisfaction. The state socialism of His Highness was directed against the business interests and Liberal (free trade) Party. The latter had accepted the principle that workers should be forced to insure themselves but stood for their freedom to choose their own, non-

governmentalized agencies. What was even worse from the militarist point of view, the Liberals were blocking time and again the Chancellor's requests for armaments. The Reich he created had almost no revenues of its own other than from import duties and excises. It had to rely on contributions from the states which were available only through unpleasant parliamentary procedures. The new social insurance organizations were to place their resources at the federal government's disposal, saving Bismarck the embarrassment of going, when need arose, with his hat in hand to a reluctant Reichstag.

Above all, the new system was an offshoot of his economic and political philosophy. Bismarck was a tradition-bound reactionary, altogether resentful of modern industrial development, although he himself owned a small paper mill. As did many of the ultra-conservative contemporaries of his *Junker* class, he trusted agriculture and handicraft but frowned on large-scale industrial enterprise and on trade unionism. To check both, if they had to be tolerated, was one of his goals. Governmentalizing and thereby controlling, through an appropriate bureaucratic apparatus, the providing of medical, accident, and old-age care and of death (burial) benefits seemed an obvious way to put the reins on laissez-faire capitalism as well as on labor.

The Spread of the Idea

This approach conformed to the paternalistic make-up of his mind—as it conforms to the paternalism of modern dictators and of humanitarian social workers. It is no mere accident if pseudo-liberals bubble over with praise of the arch-reactionary Prussian *Junker*'s medical security legislation. It was especially palatable to the bureaucracy of the Habsburg Monarchy.

The West resisted at first. It still was imbued with the nineteenth-century tradition of individual freedom and responsibility. But even before World War I its resistance began to soften under the fascination of the power emanating from Wilhelminian Germany and under the German propa-

ganda that labor's patriotism has to be bought by social concessions. Shortly before or during that war, Britain, Norway, Iceland, Russia(!), etc. introduced modified replicas of the German compulsory panel system, followed by more countries after 1918. A dead and defeated Bismarck proved to have a wider spiritual influence than the living and victorious one ever enjoyed.

The triumphant march of authoritarian medicine received a fresh boost at the outset of the great depression when, among others, France, after a decade of political oratory and wrangling on the subject, instituted a system of its own. It was modeled on the German but with significant modifications.

However, 1943–46 was the most crucial time since 1881–84 in the Western history of compulsory health service. It was the hour of the liberation from Nazi occupation, with the parliamentary systems of the liberated nations in a semi-chaotic condition, and with Communists either in cabinet posts or having decisive influence in public affairs. As a result, far-reaching legislation was hurried through, which under normal conditions, would have run into serious obstacles. In France, in November 1944, a new social security law of communistic coloring was voted in a virtually empty Chamber of Deputies. Left-wing rule in Belgium was responsible for its sickness scheme of 1944. It was also under abnormal wartime and post-war conditions that Italy and Holland "reformed" their sickness plans. New plans were put into operation or the old ones were revamped thoroughly in Australia, Argentina, Brazil, Chile, Spain, the Russian satellite countries, Costa Rica, Ecuador, and of course in Britain. Legislation has been passed, but is not as yet in effect in three Canadian provinces and in Sweden.

Hitler, the Humanitarian

It is a fact, and a very remarkable one, that the great demagogues of our age appear to be greatly worried about the health of their subjects. No one was more so than Adolf Hitler. His racism was the last word in "biological" demagoguery, unless the

new anti-hereditary biology of the Soviets exceeds it, an expression of the identical nationalistic purpose. In terms of political results, it was a most effective demagoguery due to its emphasis on health and virility. As a committee report on health insurance of the Canadian House of Commons put it (March 16, 1943): "During the early years of Hitler's regime, the government's medical program was looked upon by many observers as one of the greatest props of the totalitarian state."

Before coming to power, the Nazis were violently critical of the social insurance set-up, considering it a weapon in the hands of their enemies, the Social Democrats. They objected especially to the extravagance and corruption in compulsory medicine and to its alleged effect in "softening" German manhood. Thereby they earned the applause of doctors as well as of businessmen and the approval of the disgruntled middle classes. They promised thorough-going reform and drove their opposition home so forcefully that Chancellor Brüning was constrained to introduce in 1931–32 several measures affecting the medical care system which were most unpopular with labor. A three-day waiting period before cash benefits became available was made mandatory. A small tax ("deductible") on prescriptions and a levy of 50 *Pfennigs* on each quarterly sickness ticket of the patient were imposed. This charge of 20 cents in American money per quarter, imposed on patients many of whom were unemployed, resulted at once in cutting the number of applications by about one-quarter! But these "deflationary" measures, together with the liquidation of the totally bankrupt unemployment insurance, also had the consequence of arousing an ill-feeling among the workers which had no small influence in bringing down the house of the Weimar Republic. Brüning took the blame; Hitler got the credit.

Once in power, the latter soon reversed his strategy. The ill-famed Dr. Ley, boss of the Nazi labor front, did not fail to see that the social insurance system could be used for Nazi politics as a means of popular

demagoguery; as a bastion of bureaucratic power; as an instrument of regimentation, and as a reservoir from which to draw jobs for political favorites and loanable funds for re-armament. Brüning's extra tax on panel patients was cut in half. By 1935, with Hitlerian full employment under way, the few pennies of extra tax represented a purely nominal charge. The sting was taken out of it.

The *Führer* gained in popularity by reducing to negligible proportions an unpopular measure which he himself had instigated. He lost no time in making a positive contribution of his own to the organization of compulsory medicine by extending it in 1939 to small business (handicraft), by tightening it in Austria (1938), and by establishing compulsory health care in occupied Holland (1941). One of his last "social" measures, in March 1945, was to have workers in certain irregular types of employment included. But his attempt to abolish the autonomy of the panels and to regiment them by centralization had been checked by the concerted resistance of the medical profession, the panel bureaucracy, and public opinion. Similar abortive attempts at complete bureaucratization of the panels were made under the Kaiser in 1909 and in the Weimar Republic's revolutionary days in 1919. The same goal is on the Social Democratic Party's agenda again in 1949.

Of all totalitarians who have written their names in the book of medical economics and politics, Lenin's will have to be printed in the largest capital letters. His was (1917) the first complete cradle-to-grave plan, the first plan embodying complete nationalization of medicine. His influence on the West did not make itself directly felt until World War II. Since then, wherever Russian bayonets take over, the Soviet blueprint of social security follows. Even more important to us is his ideological influence, embodied in the Beveridge Plan of 1943, that in turn appears to be spreading over Western Europe, Latin America, and the Antipodes.

Lenin and Bismarck had in common the paternalistic philosophy of government which included the supremacy of a trained

and solidly disciplined bureaucracy over what they both considered the anarchy of the unregimented marketplace. To both, the "little man" was either financially or at any rate morally incapable of caring for his own future. Both were motivated by an insatiable thirst for power and utilized to their own political advantage the alleged responsibility of the State for controlling the insecurities of industrial life. Social insurance or social security was essential to their concept of the Good Society. It involved a regimented society ruled by their own superior wisdom.

From Social Insurance to Social Security

Actually, Lenin and his followers were thoroughgoing admirers of the Prussian bureaucracy. Soviet planning was built, at the outset, on the pattern of German military management in World War I. But there the ideological community of the two authoritarians ended. Bismarck presented his project in the name of the Christian idea of the state, confusing it with the state idea of eighteenth-century enlightenment. (His much vaunted "Christianity" did not interfere with Bismarck's violent opposition to any sort of factory law, such as to enforce minimum hygienic requirements.) Lenin was a genuine revolutionary, basing his Communism on a purely materialistic philosophy. To the one, private ownership of the means of production was sacrosanct but was to be regimented; for the other, it was to be wiped out altogether. Bismarck had to compromise with resisting parliamentary forces led by the industrialist Stumm. Even the trade unions were opposed tooth and nail; they could not foresee—nor did Bismarck, of course—that some day they themselves would have the power to use the scheme for more power. Lenin, by 1922, having wiped out parliamentary resistance, possessed power absolute as no sovereign has had since Genghis Khan.

Two basic types of governmentalized medicine resulted. The Prussian bureaucrat created the obligatory health insurance of a comparatively limited scope. What the Rus-

sian Bolshevik has bestowed might be described as compulsory health security of an unlimited medical orbit. Perhaps they should be distinguished as governmentalized vs. socialized medicine. In the one, the beneficiaries are "insured"; in the other, they are "registered."

That social insurance à la Bismarck and social security à la Lenin are different in degree only—that the dynamic potentials of the one tend to carry over into the other—may astonish those who do not realize that Bismarck's famous "personal rule," that was to wreck his nation's democracy, was a conscious if abortive attempt aiming basically at the same political goal which was to materialize in the Politburo (and in Hitlerism).

Lenin vs. Bismarck

Bismarck's system meant to be, in appearance at least, what its name indicated: insurance, even if without a true actuarial foundation, and a subsidized, involuntary plan. At the outset, the insured were to be classified according to risks and to receive cash benefits in proportion to their contributions; a surplus, the equivalent of profit, was to be accumulated as an emergency reserve to guarantee the insurers' (panels') solvency; each type of risk incurred was to be offset by appropriate premiums; preferably, the risks were to be distributed by re-insurance; etc. These are axioms of sound insurance management, most closely approximated at present by the Swiss panels among European cooperative systems of medical care.

Nothing of the kind is aimed at in the Bolshevik pattern, the all-embracing program of Comrade Lenin. The same holds in principle for the compulsory set-ups based on Leninian security ideals now in operation in France and Britain. There, too, the pretense of businesslike management has been almost totally abandoned.

Bismarck's humanitarianism was limited originally to the worker dependent on hourly wages. Thus the range of persons falling under the compulsion was defined.

This type of legislation, which still predominates on the Continent, restricts panel membership to employees and their families, or to the "economically weak" groups comprising the income brackets not above skilled factory labor.

In Lenin's kind of world there is, supposedly, one kind of income recipient only. All are in the same boat; all need the same support. The idea of medical insurance for the underprivileged is inflated into equal medication for everybody. Every one according to his needs is the underlying axiom. From a humanitarian device of restricted confines, the idea has grown into all-embracing, Communistic dimensions—on paper. In reality, the industrial population only is "secured."

In Soviet Russia, from 1922 to 1938, nationalized industry—i.e., the government—carried the cost of socialized medicine in the form of a 6.5 percent "payroll tax" (25 percent for all social security) with recourse on the national budget to cover eventual deficits. Industries, not labor, were to pay the bill. Similar systems with minor modifications are now being set up in the satellite countries. In the 1948 Bulgarian scheme, for example, the self-employed are the only ones to pay contributions—which is one way to hasten their elimination—with all benefits of medical service freely dispensed to everyone.

Of course, Lenin's promises and Stalin's practices are worlds apart. Since 1938, the trade unions, the workers, had to take over about 8 percent of the total cost. Hazard-classes were re-introduced, and the contributions graded accordingly. Medical benefits have been greatly deflated, while the number of persons covered has risen four-fold in the decade since 1928. And the Soviet health plan has developed into a forceful method of disciplining labor. Cash benefits to adult workers, for instance, are available only at the rate of 50 percent of their wages after two years of uninterrupted work in the same industrial unit; 60 percent, 80 percent, and 100 percent accrue if they stay three, six, and more years, respectively. Motherhood benefits are guaranteed by the Soviet

constitution but are paid only to women who have worked at least seven months in the same plant.

But the aristocracy of Soviet officialdom and labor receive all the sickness care their country is able to give, including richly endowed sanatoria and rest-homes in the Caucasus and the Crimea. And Stalin claims credit for being the Great White Father dispensing health security to all of his subjects.

Minimum or Maximum to Be Provided?

After World War II, Western Europe's medical schemes were not revolutionized by open adoption of Lenin's plan. But the latter gave a tremendous impetus in a direction that has been under way ever since Bismarck. The original German set-up was meant to be, to repeat, health "insurance." The weight of the entire scheme rested on cash benefits per day of lost income. Benefits in kind—medical services proper—were supplementary only, largely left to the decision of the individual panel which had a broad autonomy in disposing of the means on hand, even in determining the percentage levy on payrolls. The emphasis on cash benefits and on the autonomy of the panels was a basic feature of that original plan wrested from Bismarck by the Parliamentary opposition.

It did not take two decades to reduce to a fraction of the total the share of cash benefits in the disbursements of the German panels. Once services in kind become the mainstay of the sickness scheme, it turns into a queer instrument of wealth redistribution. (All other branches of social insurance, with the partial exception of workmen's compensations for accidents, are restricted to cash disbursements.) Contributions cease to bear any relation whatsoever to the risk involved. Policing by physical controls over a most vital sector of private life takes the place of actuarial calculation.

Thus, the difference between the Bis-

marckian and the Leninian patterns tends to fade out. But still, the contrast between the old and the new approach reaches into every corner of the problem. Paternalistic as the Bismarckian scheme was, it did not intend to free the individual of all responsibility. He or she was to be secured to the extent only of absolute necessities. An irreducible minimum of health care and of income guarantee was to be dispensed, no more. Accordingly, cash benefits had to be much smaller than the actual income of the recipient when working. Medical services were to offer as much as was objectively necessary to restore health; but the patient was not to be pampered, and his incentive to care for himself and for his family was not to be impaired.

The postulate of economic self-reliance in spite of compulsory "insurance" permeates all medical schemes built on the Bismarckian pattern. The beneficiaries are supposed to carry a major share of the costs by their own contributions and partly also by "deductibles." As to disbursements, they should be kept at a minimum by thrifty administration of the panel and by sharp control over its spending. Otherwise, there is to be no interference with medical practice. In short, business-like management is the *idea* of compulsory insurance proper, presupposing business-like units to do the job in a decentralized, more or less competitive fashion, if under supervision by the authorities.

The latest editions of the Welfare State abandon the misleading claim of offering a system of insurance which would imply some sort of *quid pro quo* between premiums paid and benefits received. In medicine, instead of providing the barest minimum, it promises the desirable maximum. Its objective is to fulfill a social function; the emphasis in lip-service is on what the State allegedly owes its citizens. The security organization is centralized; its administration tends to be fully governmentalized. Ultimately, all medical personnel is to be nationalized, as we shall see. □

WHAT HUNGER INSURANCE COULD TEACH US ABOUT HEALTH INSURANCE

by Joseph Bast

To understand what lies at the heart of the failure of our current health-care financing system, imagine, if you can, what the world would be like if we tried to buy food the same way we buy health-care services.

You could go to work tomorrow morning and hear your boss tell you the following: The company has decided to offer a new benefit: hunger insurance. The company will purchase a hunger insurance policy for you that covers about 95 percent of your food costs whenever you enter a grocery store or restaurant, and a smaller share of the miscellaneous snacks and condiments you purchase from street vendors and the corner drugstore. To pay for the new benefit, the company will withhold some of your pay—about \$100 a week or so.

Effect on Consumers

What effect would hunger insurance have on you, a *consumer* of food? If you're like me, you will probably start to eat more . . . and eat better, more expensive foods. Why eat hamburger when you can have tender-

loin? Why settle for beer when the finest wines cost *you* just as little? Why eat at McDonald's when you can eat, for nearly the same price, at Chez Paul?

If there were such a thing as hunger insurance, some of us would stop checking prices before we ordered food, just as we don't check prices when we ask for medical treatment. Some of us would order fancy and expensive foods that we wouldn't order if we really had to balance the price against the improved taste . . . just as we order unnecessary and expensive tests to get just a little more peace of mind.

And if there were hunger insurance, some of us would overeat until we were so round and fat that our health was endangered, just as we see millions of people in America asking for and receiving unnecessary surgery and medication that actually endangers their health.

Effect on Providers

What effect would hunger insurance have on the *providers* of food? Put yourself in the shoes of a grocery store manager. You would start stocking more caviar and less Cheese Whiz, wouldn't you? Rather than

Joseph Bast is President of The Heartland Institute in Chicago.

lose customers to fancier (and more expensive) establishments, you would carpet your aisles, hang chandeliers in the lobbies, and have distinguished-looking fellows with white gloves push people's carts down the aisles!

Every grocery store would offer an impressive array of products, from the very finest meat department to the best stocked liquor counter (providing state law allowed it). That the store next door has the same expensive freezers and wine cellar matters not at all: Cost, you understand, is no object. "Overinvesting in new technology," you ask? Hey, the insurance company pays for it all! And if we don't offer it, customers will cross the street and shop there. You know *you* would.

What if you were a lousy grocery store manager who just couldn't keep costs down and quality up? Before hunger insurance came along, you would be forced out of the market by stores managed by sharper people able to cut costs without sacrificing quality. Customers wouldn't patronize your establishment, and you'd be out of business. But with hunger insurance, you can pass along your higher costs to the insurer, so the customer never knows how inefficient you are! So you get to stay in business despite your inefficiencies. Out of gratitude, you may even spend a little money lobbying to make sure hunger insurance is always available!

If there were such a thing as hunger insurance, the price of food would begin to soar, just as the price of health services has steadily risen faster than the price of other goods and services. Financed by hunger insurance companies, grocers and restaurateurs would sell more food and of a fancier variety than if they faced customers who paid with their own money, just as health-care practitioners today are free to overtreat and overprescribe. Food sellers would over-invest in expensive and under-utilized equipment and pass the cost along to the insurers, just as hospital administrators today buy too many MRIs and CAT scanners and pass along the expense to health insurers. And inefficient, low-quality providers of food would stay in business rather than be

forced out by better competitors, just as high-cost providers of health care are tolerated in today's health-care marketplace.

Effect on Insurers

What would happen to *insurers* if hunger insurance were provided? The premiums they charged at first were based on past levels of food consumption and prices. As consumption expands and prices rise, insurers have to raise their premiums again and again. The exploding number of insurance claims buries them in paperwork. The businesses that pay the insurance premiums will, of course, be outraged by all this. "Find a way to control these rising costs!" they will demand. "The rising cost of hunger insurance is making us less competitive with businesses in other countries!"

The insurers will hire an army of "managed-eating" experts who will search the grocery bags of the insured for signs of unnecessary products, just as today's health insurers have hired experts in "managed care" to review health services utilization. People will resent this intrusion into their personal dietary habits, just as they resent the managed care experts second-guessing their health concerns. People with hunger insurance will find ingenious ways to avoid the managed-eating experts, and the eventual results will be higher, not lower spending. . . just as businesses with managed-care programs today are discovering.

Effect on the Uninsured

Some people in our imaginary world will be *uninsured*: They won't have hunger insurance because their employers are too small to afford to offer this new benefit, or because they are self-employed or unemployed. Or, in their effort to control costs and make money, some hunger insurers will refuse to cover people who are high food-risks—the hoarders, the people with exceptionally delicate palates, and the bulimics. They will offer cheaper rates to others: beer-drinking football fans, people who can't smell, and anorexics.

The uninsured will be hurt the most by hunger insurance because they will see the price of food bid up and out of reach by those lucky enough to have hunger insurance. The foods that were once plentiful and inexpensive will now be unavailable or high-priced, just as health insurance has replaced inexpensive general practitioners with expensive specialists, and inexpensive but slow-working therapies with expensive but quick surgical procedures.

Those who lack hunger insurance will be seen standing with their noses pressed to the windows of our beautifully carpeted and chandelier-lit grocery stores and restaurants, just as millions of Americans today crowd the emergency rooms of state-of-the-art hospitals whose beds are between one-third and one-quarter empty.

Effect on Elected Officials

What would happen to our *elected officials* if hunger insurance existed? Civil rights activists and well-meaning people without much understanding of economics would campaign against for-profit hunger insurers, denouncing them for being heartless in their discrimination against people with eating disorders. They would condemn them for profiting from the provision of something so fundamental to human life as food. "Food is a right, not a privilege," they would say. "The high administrative costs of the hunger insurers are what is causing the problem. We should abolish private hunger insurance companies and replace them with a single provider of food."

And since experience will have so convincingly shown that the current hunger insurance system is inefficient and unjust, our enlightened elected officials would eventually yield to the public's demands and pass "play or pay," forcing businesses to buy hunger insurance for all their employees, or "national hunger insurance," where government acts as the single payer of all hunger insurance claims.

The nation will face a difficult choice: Either abandon the idea that all food should be paid for by hunger insurance, or impose

draconian rationing measures, price controls, and restrictions on new investments in food processing and delivery technologies. If we can judge by what is happening today in the health-care arena, the advocates of rationing will dominate the debate.

Commissions will spring up everywhere to determine whether a carrot is more valuable to the community's welfare than a grape, and a grape more valuable than a banana; just as commissions are being created at this very moment to decide whether capping 1,000 teeth is "worth more" than extending a person's life for one week by kidney dialysis. The issue will be addressed as if justice and virtue, rather than economics and incentives, were at the heart of the issue.

The Lessons

What if there were such a thing as hunger insurance? This little exercise in imagination teaches us quite a bit about why we spend too much on health care. In its simplest form, the lesson is that we rely too much on insurance to pay for our health-care expenses. This reliance makes us poor consumers, encourages health care providers to provide too much, and allows and even encourages inefficiency and waste.

Sometimes things that should be obvious just aren't. Ninety-five percent of all hospital bills, for example, are paid for by private or government insurance. Can the same be said of any other industry? Is it merely coincidence that costs are rising so much more rapidly in health care than in other industries?

The solution to the nation's health-care crisis is not, of course, to abolish health insurance. Health expenses are an insurable risk, and because they can be substantial it certainly makes sense for people to buy insurance. But insurance should not be simply *pre-payment for routine medical expenses*. When insurance is used for this purpose, it leads to overuse and all the problems we saw with hunger insurance.

Insurance, instead, should be limited to protecting us from what are now called

catastrophic risks. We should *self-insure* against small and routine health expenses, and ask our insurance coverage to "kick in" only for large and unpredicted expenses. These are the kinds of expenses true insurance is designed to cover. And because such expenses are only seldom incurred, the administrative costs and paperwork involved with "real" insurance are far less than that involved with insurance as pre-payment.

The policy questions, then, are these: How can we wean our nation off its "addiction" to health insurance? And how can we replace insurance provided by an insurance company with *self-insurance* from our own savings? The answers lie in changing a public policy responsible for creating our addiction in the first place.

Medical Savings Accounts

We rely so heavily on insurance to pay our medical bills because the tax code rewards employer-paid insurance and penalizes self-insurance. Employer-paid health insurance premiums are tax-deductible business expenses for our employers, so they don't count as taxable income at the end of the year. Money spent paying medical bills directly, in contrast, is not tax-deductible. We must pay out-of-pocket medical expenses with what is left of our paychecks after Uncle Sam has taken his tax share.

The tax code has a dramatic effect on our decision to buy health insurance, and on the deductibles and copayments our insurance policies contain. Employer and employee Social Security taxes (15.3 percent), federal income taxes (15–36 percent), and state and local income taxes (approximately 8 percent) can reduce one dollar of pre-tax income to 43 cents or less of post-tax income. Paying for health care with post-tax dollars, then, requires earning one dollar to buy 43 cents' worth of service. Having an employer purchase a health insurance policy, on the other hand, means a dollar's worth of earnings buys an entire dollar's worth of insurance.

The way to correct this situation is to follow the path blazed by Individual Retirement

Accounts, or IRAs. IRAs encourage us to put away money for retirement by allowing us to deduct the amount of our contributions from our income when calculating our income taxes. *Medical Savings Accounts*, or MSAs, would operate the same way, but money deposited into the accounts could be withdrawn only for medical expenses.

By giving the same favorable tax treatment to self-insurance as is now given to employer-paid health insurance, we can begin to break our national addiction to health insurance. Many of us would choose to purchase insurance policies with much higher deductibles—perhaps as high as \$4,000 a year—if the premium savings achieved by switching policies were routed into our personal savings account and allowed to accumulate over time.

Two organizations have designed MSA plans that are fair and affordable for all Americans. They are the National Center for Policy Analysis, in Dallas, Texas, and the Council for Affordable Health Care, in Washington, D.C. Several bills now pending in Washington would create MSAs.

Conclusion

Enabling people to self-insure against small and routine medical expenses may not sound as exciting and promising as "national health insurance" or "play or pay." But MSAs offer the best way to control spending without life-threatening rationing, ineffectual price controls, and all the other non-solutions being discussed by politicians today.

Our fictitious world with hunger insurance reveals how over-reliance on health insurance is at the very root of our nation's health-care problems. The solution to these problems is not to pass price controls or impose more regulation on health-care providers. All that is required is a change in the tax code encouraging people to pay for their own health care out of personal savings.

Isn't it nice to know that, sometimes, complicated problems really do have simple solutions? □

THE FREEWAY TO SERFDOM

by Jane M. Orient, M.D.

Wouldn't it be wonderful to have all the medical care you needed or wanted, without ever worrying about the bill?

And wouldn't it be wonderful to drive to work every day without ever paying a toll or stopping at a red light?

The second question usually provokes much more critical thought than the first. Before people vote the money to build a freeway through their downtown, a lot of inconvenient objections are raised.

The first is this: Do we want to tear up the main business district of town?

The idea of "comprehensive health care reform" to "assure universal access" should stimulate the same thought process. To build such a system, you start by destroying the insurance and medical system that we already have.

Remember what happened in 1965. Before Medicare was enacted. The majority of senior citizens had insurance. After Medicare, they just had Medicare. Their private insurance policies were all torn up.

At first, that seemed okay, or even wonderful. Everybody seemed to be getting more for less, or even for free. Now, Medicare is bankrupt, and we're just beginning to see the effects of government rationing. It's as if we built an Interstate into every town

and hamlet and then stopped repairing the bridges.

When we build a freeway, we don't necessarily destroy all the other roads. In Britain and Germany, private medicine is allowed to coexist with nationalized medicine. But in Canada, it isn't. If you're a Canadian and want something the government isn't willing to pay for, or you want it now instead of three years from now, you have to go to the United States.

A lot of proponents of "universal access" want to close the private escape hatch. They want no other roads—just the freeway. Of course, there may be some back alleys or secret tunnels or special facilities for Congressmen, but those won't provide American-class medical care to ordinary folk.

Some think we don't need other roads if we have a freeway. But remember what a freeway is: a *controlled access road*.

That's what "universal" access means too. Sure you have the "right" to get on the freeway, just as you have the "right" to medical care in Canada (or the "right" to comprehensive care in the U.S. if you belong to a "managed-care" plan). But you can only get on the freeway from the on-ramp. There is no tollgate or stoplight—but the traffic might be backed up for miles and moving imperceptibly.

In Canada, you don't have to pay to get medical care. In fact, you are *not allowed* to

Dr. Orient practices private medicine in Tucson. She is also Executive Director of the Association of American Physicians and Surgeons.

pay. Once the global budget is reached in Canada, that's it. The on-ramps are closed. It doesn't matter if you have money. Hospital beds are empty for lack of money to pay nurses, and CT scanners sit idle all night for lack of money to pay a technician. But if *some* people are allowed to pay, Canadians fear that *some* people might get better care than others.

(Until recently, this concern did not apply to dog owners. They could buy a CT scan for their dog, but not for themselves.)

American "managed-care" plans—a favorite model for would-be reformers—resemble the Canadian system in that patients don't have to pay at the time of service. (At least, they don't have to pay very much.) But they do have to go through the gatekeeper, who keeps a sharp eye on the budget.

Unlike the people in toll booths on the New Jersey Turnpike, managed-care gatekeepers don't collect the toll. But that doesn't mean that nobody pays.

Even if we abolish payment at the time of service, medical care must still be paid for. The only choice is to pay in advance or to pay later. With government programs, we

often borrow money and commit our great-grandchildren to pay.

Another problem with the freeway is that you can only go where the freeway goes. If there's a roadblock at your exit, you can't take that exit.

Countries that promise "universal access" are pretty good at paying for well-baby checks and vaccines and doctor visits for the common cold. Those are exactly the things most people are able to afford for themselves.

The roadblocks are at the exits that lead to the hospital. The global budgeters "contain costs"—ration health care—by denying those things that you *do* need insurance to pay for: heart surgery, radiation treatments for cancer, hip replacements, things like that. Out of "compassion," reformers may open another exit: the one that leads to the cemetery. Do you think it's accidental that euthanasia and "universal access" are on the agenda at the same time? When government gets involved in providing health care, health care must be rationed.

If you want to see reality, don't look at Disneyland. Look at the Santa Ana Freeway. □

THEFREEMAN
IDEAS ON LIBERTY

THE CONSEQUENCES OF MANAGED COMPETITION

by Vincent W. Cangello, M.D.

Under managed competition the primary care physician takes complete charge of the patient's health care. The primary care physician is encouraged, and often finan-

Dr. Cangello is a private practitioner in Oakland, California.

cially rewarded, to limit and reduce the number of patients he refers to a medical or surgical specialist.

Under managed competition, a female patient, for example, loses her prerogative to see a gynecologist unless she first obtains

the permission of her primary care physician to make such a visit.

The limiting of referrals, a basic concept of managed health care, is in direct conflict with the structure of American medical education and the medical profession. Such limits can cause primary care physicians—general practitioners—to prescribe care at levels that exceed their knowledge and training. When this occurs, the patient runs the risk of receiving improper care.

Evidence of this was provided by *American Medical News* on September 14, 1992, when it was reported that malpractice lawsuits filed against primary care physicians is on the rise while those against surgical specialists is declining.

Timothy Morse of St. Paul Fire and Marine Insurance Company, which insures 30,000 doctors in 43 states, told *American Medical News* that "Well over 50 percent of our claims made and over 65 percent of all our claims paid are coming from failure to diagnose and improper treatment."

Medical patients should know that the body of medical information facing today's medical students is so immense that it is virtually impossible for any one doctor to become expert and stay abreast of all its advances.

Physicians specialize in order to master a subject, not merely in order to make more money, as they are often accused. Such an accusation fails to show appreciation for and gives no credit to the students who choose to be specialists for the "security of mastery" or for the enjoyment of the work involved.

Americans today want the best care available, regardless of cost and despite any reluctance to reform bad health habits. They will bring suit against the doctor if they don't get it. With that reality in mind, medical students who choose to become primary care physicians are taught to respect the

limits of their ability and to seek the benefit of consultation with medical and surgical specialists, without hesitation, whenever necessary.

This basic tenet of the American medical training, which has produced a quality of health care envied throughout the world, is discouraged by the "primary care/gatekeeper" concept of managed competition.

A review of British medical history demonstrates that any reduction of communication between primary care physicians and their consultants leads to the separation and eventual isolation of the primary physicians and guarantees an overall lowering of the quality of health care available to their patients.

Frank Honigsbaum, an American physician, studied these phenomena and wrote in his report "Division in British Medicine" (Kogan Page Ltd., 1979): "To the world outside, the medical profession [in England] appears to form a unitary whole." In reality, however, "Doctors nearly every where are divided into two main classes—General Practitioners and Specialists—and the gap between them grows wider every year. For this, the advances in knowledge are mainly responsible." He emphasized that "It is the ongoing intellectual partnership and exchange of knowledge occurring between the generalists and specialist [the traditional practice in the U.S.] that keeps the quality of medical care at its best."

If this partnership is disturbed, as it was in the British National Health Service, the quality of care diminishes throughout the system, and especially at the primary care level.

A correct diagnosis and proper care at the outset of a patient's illness will do more to reduce the cost of care than any restriction of appropriate consultation. It would be better to err on the side of an unnecessary consultation than not to have one at all. □

THE COMING FINANCIAL COLLAPSE OF SOCIAL SECURITY

by Peter J. Ferrara

The first officially recognized financial collapse of Social Security occurred in 1977. Government projections at that time showed, and everyone agreed, that without major changes Social Security would be unable to pay all of its promised benefits within a couple of years, with a yawning, continually growing deficit after that time.

Consequently, by the end of the year, Congress and President Carter dramatically increased Social Security taxes and trimmed benefits. Payroll tax rates increased repeatedly through 1990, for a total increase of 30 percent. Moreover, the maximum income to which this tax rate applied was increased sharply from \$16,500 at the time, and indexed to increase every year thereafter. Today this maximum taxable income is \$57,600.

The American people were assured over and over by President Carter, the Social Security Administration, and the rest of the Washington political establishment that these changes guaranteed the financial soundness of Social Security "for the rest of this century and well into the next one."¹ But by 1980 Social Security was already in deep financial trouble again. The govern-

ment's annual financial report for the program showed that without a change in the law, the program might not be able to pay its promised benefits as early as 1981.²

To address this second financial crisis, a bipartisan commission headed by Alan Greenspan developed a package of tax increases and benefit cuts enacted early in 1983. The truth is that if the economy had continued to perform as it had in the 1970s, with high inflation and periodic sharp recessions, the system would have collapsed again within four years. But price inflation was sharply reduced in the 1980s, and the economy continued to grow for about eight years after 1982 without a recession, and then slid into a relatively shallow slump. Consequently, another quick collapse was avoided.

But Social Security's long-term financial problems are another question. A key strategy of the Greenspan Commission was to develop a large surplus in the Social Security trust funds from 1990 to about 2010, to be used to help finance the retirement of the huge baby boom generation starting after 2010. However, the latest government projections show the expected surplus shrinking into relative insignificance. Moreover, the so-called Social Security trust funds in any event are not a store of financial re-

Mr. Ferrara is a fellow at the Heritage Foundation. He is the author of Social Security: Prospects for Real Reform (Cato, 1985).

serves that can assure the future ability of the program to pay its promised benefits.

Repeated financial crises are an inherent feature of the Social Security system. The Social Security trust funds are essentially a sham that cannot assure future financial security. Today's young workers will never receive the benefits currently promised to them by the program.

An Inherent Problem

Most people seem to imagine that Social Security operates like a traditional fully funded retirement program. In such a system, the tax payments of current workers are saved and invested to finance their own future benefits. As a result, a huge financial reserve is built up sufficient to finance accrued benefits at any point in time. This reserve is used to finance benefits during retirement years, while current workers at that time will be building up their own reserves to finance their own future retirement.

Social Security, by contrast, fundamentally operates on a pay-as-you-go basis. The tax payments of current taxpayers are not saved and invested to finance their own future benefits. Rather, most current tax payments are immediately paid out to finance the benefits for current retirees. Future benefits for present taxpayers are to be paid out of the future tax payments of future workers when today's taxpayers are in retirement. Consequently, large cash reserves to finance benefits are never developed in such a system.

Such a pay-as-you-go system is quite vulnerable to any adverse development that may upset the delicate balance between expected future taxes and expected benefits. If unemployment rises, revenues from the payroll tax will fall from expected levels. If price inflation accelerates, indexed benefit payments will increase faster than expected. If retirees live longer than expected, benefit expenditures will again grow faster than projected. If the birth rate drops, fewer workers will be available to pay promised benefits in the future that are already paid for and relied on by current workers. These

and many other possible developments can quickly tip a pay-as-you-go system into financial crisis, leaving it without sufficient funds to pay promised benefits.

None of this is a concern in the first generation under a pay-as-you-go system. When such a system is begun, a full generation of taxpayers begins to pay taxes, but there are no beneficiaries entitled to benefits based on past tax payments. In a fully funded system, these initial tax payments would have to be saved and invested to finance the future benefits of current workers. But, of course, these initial tax payments are not saved and invested under a pay-as-you-go system. Consequently, in the start-up phase of such a system, there is no concern over bankruptcy, or the inability of the program to pay promised benefits. To the contrary, the system is awash in unclaimed funds, and the only issue is how much to pay out in virtually free windfall benefits to early retirees. Since the first retirees pay little or nothing for their benefits, it is easy to pay them only what can be comfortably paid out of the initial incoming revenues. The beneficiaries will be grateful for the windfall benefits they receive.

After the first generation under such a system, however, this situation completely reverses. The retiring generation will then have paid taxes for an entire lifetime and will have built up enormous benefit claims. At this point, there are no more unclaimed surpluses and no more free benefits to pass out. The issue instead becomes whether taxes from current workers will be sufficient to finance promised benefits. If not, then Congress must raise taxes or cut benefits, in stark contrast to the vote-buying spending sprees of the first generation.

During its first 40 years, Social Security was in its start-up phase, and short-term financial solvency was not an issue. Instead, free windfall benefits were paid out to retirees.

But by the mid-1970s, sufficient benefit obligations had accrued to make financing a problem. Adverse economic developments soon developed to tip the system into financial failure. Inflation soared in the 1970s,

sharply increasing benefit payments indexed to inflation. At the same time, periodic sharp recessions caused unemployment to rise and wage growth to fall, sharply reducing expected revenues. The combination of these economic difficulties caused the first two financial crises of the system described above. The primary cause of the third wave of financial collapse of Social Security, however, will be demographic, as discussed further below.

The Trust Fund Fraud

Even if Social Security attempted to depart from the principle of pure pay-as-you-go financing and developed a substantial trust fund reserve, future benefits would not be any more assured because of the essentially fraudulent nature of the Social Security trust fund system. Any remaining Social Security revenues after benefits are paid are lent to the federal government in return for new, specially issued government bonds which are held by the Social Security trust funds. The federal government then spends the borrowed Social Security revenues on other programs. The Social Security trust funds hold no assets other than these government bonds.

When Social Security revenues are insufficient to finance current benefits, the government bonds held by the trust funds are to be turned into the federal government for the cash needed to finance the benefits. But the government holds no cash or other assets to back up the Social Security bonds. The trust fund assets are claims against the federal government, government IOUs which will have to be financed out of increased federal taxes or increased federal borrowing. In other words, the trust funds are part of the national debt which must be paid when Social Security needs the money.

As a practical matter, these Social Security trust funds are nothing more than a statement of the amount that Social Security is legally authorized to draw from general federal revenues in the future, in addition to payroll tax revenues. Therefore, if the Social Security trust funds hold \$1 trillion at

some point, that statement even if true, would not mean that the Social Security system is financially sound. Quite to the contrary, it would mean that Social Security would have an additional \$1 trillion claim against the taxpayers, in addition to the claim against them for payroll taxes.

Because the Social Security trust funds do not hold any real assets, just a claim against future tax revenues, a growing trust fund by itself does not mean that paying for the retirement of future generations will be any easier economically. It just means that more of this burden will be met out of income taxes and federal borrowing rather than payroll taxes.

The inherent financial problems of Social Security could be successfully addressed if the system were changed so that it accumulates reserves in a fully funded system and those reserves are invested in productive assets in the private sector. But that would require the government to own so much of the private sector through the Social Security trust funds that it would fundamentally change our entire economic system in an unacceptable way. Consequently, financial problems of Social Security can be solved only by shifting to a private system of decentralized investment accounts controlled by workers individually or through voluntarily organized groups.

The Looming Retirement of the Baby Boom Generation

As indicated above, the primary cause of the next foreseeable financial crash of Social Security is a destabilizing demographic problem. The huge baby boom generation is now entering middle age. Around 2010, this huge generation will start to retire, causing Social Security benefit expenditures to rise. This generation will continue to have a major effect on Social Security spending for the following 40 years.

But something has happened to make matters worse. Starting in the early 1960s, after the development of the birth control pill, birth rates in the United States declined precipitously. With the legalization of abor-

tion in the 1970s, the fertility rate, or lifetime births per woman, fell below 2.0 in the early 1970s. It continued to decline to a low of about 1.7 per woman, eventually stabilizing at these low levels until the end of the 1980s.

As a result, the baby boom was followed by a baby bust. This means that at the same time the huge baby boom generation will be retiring, causing benefit expenditures to soar, the generation of workers that is supposed to finance their retirement payments out of current taxes will be relatively small.

The devastating impact of this demographic double whammy on Social Security is shown by the Social Security Administration's own long-range financial projections. We can examine these projections under the most widely cited intermediate set of assumptions. Table 1 (on the following page) shows the results under these projections if we combine all three trust funds financed by the payroll tax—the Old-Age and Survivors Insurance trust fund (OASI), the Disability Insurance trust fund (DI), and the Hospital Insurance trust fund (HI). These three trust funds together are referred to as the OASDHI trust funds.

With the huge baby boom generation entering its peak-earning middle-age years, and paying Social Security taxes on its earnings, the program should be doing quite well financially right now. Indeed, as indicated previously, the government's plan is for Social Security to depart somewhat from its usual pay-as-you-go policy during this period and accumulate some substantial trust fund "reserves" to help finance the retirement of the boomer generation.

But Table 1 shows that under the "intermediate" assumptions, tax revenues for all three trust funds combined start to fall short of benefit promises in 2005, only twelve years from now. The federal government must cover these deficits by raising taxes, cutting other spending, or increasing the total federal deficit and federal borrowing. Besides tax revenues, the Social Security trust funds receive imputed interest income on their trust fund bonds. But since the federal government must pay the interest on

the bonds, which it does by issuing additional bonds to Social Security in the amount of such interest, that interest does not help the government pay its promised Social Security benefits. To finance these benefits, the federal government must come up with the full amount of cash needed to close the deficit between Social Security taxes and Social Security expenditures. Effectively, the Social Security trust funds must begin redeeming some of their bonds for cash to cover these deficits, though counting the additional bonds received for interest each year the total trust fund assets may continue growing for a few more years.

As shown in Table 1, this annual Social Security deficit grows to almost \$40 billion per year in constant 1993 dollars by 2010. By 2015, this annual deficit grows to \$120 billion in 1993 dollars. By 2020, the annual deficit is an incredible \$226.5 billion in 1993 dollars. The federal government again must either raise taxes, cut other spending, or increase the total federal deficit and federal borrowing by these amounts in order to pay all promised Social Security benefits, even before the Social Security trust funds are exhausted. The financial impact of the long-term Social Security financing crisis will start to hit less than a dozen years from now.

But that is not all. The federal government finances about 75 percent of Medicare Part B, also called Supplementary Medical Insurance (SMI), out of general revenues rather than payroll taxes. SMI pays doctors' bills and other health expenses, while Medicare Part A, or Hospital Insurance (HI), which is financed entirely by payroll taxes, provides coverage for hospitalization. Table 1 also shows the projected amount of this general revenue contribution for SMI each year. The federal government must come up with these funds each year as well through either federal taxes, reductions in other spending, or increased government borrowing.

The general revenue contribution this fiscal year for SMI is about \$48 billion. But Table 1 shows that by 2005 this will almost double to about \$91 billion in constant 1993 dollars. By 2010 the general revenue con-

Table 1
General Revenues Needed for Social Security
and Medicare Before Combined Trust Funds Are Exhausted
Intermediate Assumptions

Annual Deficits Between Tax Revenues and Expenditures for All Social Security Trust Funds Combined (OASDHI) Constant 1993 Dollars (Billions)	Annual General Revenue Subsidies for Medicare Part B Constant 1993 Dollars (Billions)	Total General Revenues Required for Social Security and Medicare Constant 1993 Dollars (Billions)
2005 2.5	90.6	93.1
2006 6.6	95.8	102.4
2007 12.1	100.3	112.4
2008 19.4	104.6	124.0
2009 28.9	108.7	137.6
2010 38.7	112.3	151.0
2011 50.4	119.3	169.7
2012 65.5	125.7	191.2
2013 82.6	131.7	214.3
2014 100.2	137.2	237.4
2015 121.7	142.2	263.9
2016 139.8	149.5	289.3
2017 159.6	156.2	315.8
2018 180.8	162.3	343.1

Source: Calculated from 1992 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund (April 3, 1992); 1992 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund (April 3, 1992).

tribution for SMI will grow to about \$112 billion. Counting the \$39 billion deficit in Social Security, this adds up to a total general revenue burden on the Federal government that year to finance all promised Social Security and Medicare benefits of about \$150 billion in 1993 dollars. This is again before the Social Security trust funds are even exhausted.

By 2015, this general revenue requirement to pay promised benefits grows to \$263.9 billion in constant 1993 dollars. Paying all promised benefits in that year for Social Security and Medicare alone would consequently create a total federal deficit almost as large as today's federal deficit, unless taxes are raised or other spending cut. By 2018, the general revenue drain to pay all promised benefits would grow to \$343.1 billion in 1993 dollars.

Counting the imputed interest on the government bonds held by the Social Security trust funds, all three trust funds combined actually hit their peak in nominal dollars in

2011, as shown in Table 2. In constant 1993 dollars, the combined trust fund assets in 2011 would total about \$915 billion. Yet, this is only 75 percent more than current Social Security trust fund assets, which will total about \$525 billion for all four trust funds combined this year. Moreover, as also shown in Table 2, the projected trust fund assets in 2011 would only be sufficient by themselves to cover about one year and four months of projected Social Security expenditures. Yet, the current Social Security trust assets of \$525 billion are sufficient to cover about one year and four months of projected benefit expenditures as well. Therefore, relative to the size of Social Security and the general economy, the total trust fund assets at their nominal peak in 2011 will not be significantly larger than today. Indeed, the largest the trust funds ever grow relative to expenditures under these projections is only one year and nine months worth of expenditures in 2005.

Consequently, the government seems to

Table 2
Projected Reserves for All Social Security Trust Funds Combined Intermediate Assumptions

Nominal Dollars (Billions)	Constant 1993 Dollars (Billions)	As a Percent of Annual Social Security Expenditures (OASDHI)	
		1993	1994
1993	524.3	524.3	133%
1994	596.1	575.3	142%
1995	670.1	622.5	149%
1996	746.7	667.0	155%
1997	825.6	709.2	160%
1998	907.6	749.5	165%
1999	992.1	787.5	169%
2000	1079.0	823.8	172%
2001	1169.1	858.4	174%
2002	1259.8	887.2	175%
2003	1350.4	913.9	176%
2004	1440.9	938.4	176%
2005	1531.9	961.3	177%
2006	1616.3	972.3	172%
2007	1690.8	976.6	168%
2008	1754.5	974.4	162%
2009	1807.0	966.6	157%
2010	1847.6	953.0	151%
2011	1850.2	914.8	139%
2012	1810.6	859.6	125%
2013	1726.2	788.1	110%
2014	1594.3	701.0	95%
2015	1411.9	598.6	79%
2016	1143.6	464.7	59%
2017	785.3	306.4	37%
2018	232.2	87.1	10%
2019*	—	—	—

*Total trust funds combined are exhausted in 2019.

Source: Calculated from 1992 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund (April 3, 1992); 1992 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (April 3, 1992).

be failing to accumulate substantially larger Social Security trust funds. In fact, every year the projected growth in Social Security trust fund accumulations is getting smaller and smaller. What was cited as the incredible projected Social Security trust fund surplus a few years ago is now an incredible shrinking Social Security trust fund surplus. Within a few more years, we can expect the projected Social Security trust funds to

Table 3
Total Social Security Tax Rates Needed to Finance All Promised Benefits After Trust Funds are Exhausted*
(Current Rate is 15.3%)
Intermediate Assumptions

2020	20.25%
2025	22.61%
2030	24.47%
2035	25.45%
2040	25.82%
2045	26.02%
2050	26.38%
2055	27.04%
2060	27.86%
2065	28.60%
2070	29.17%

*Assumes continued revenue from Taxation of Social Security benefits and trust any remaining funds needed to pay benefits are raised by insuring payroll tax rates.

Source: Calculated from 1992 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund (April 3, 1992).

deteriorate further, making the specter of the financial collapse of Social Security even more immediate.

After 2011, the projected Social Security trust funds decline, as the deficit between taxes and expenditures begins to exceed the annual interest on trust fund bonds paid by the issuance of new bonds. The federal government must continue to raise funds to cover the entire deficit between taxes and expenditures during this period, in the amounts shown in Table 1, effectively redeeming trust fund bonds equal to the entire deficit amount each year.

The total combined trust funds would be exhausted under these projections by 2019. Paying all promised Social Security benefits after that time would require huge payroll tax increases sufficient to close the deficit between taxes and expenditures in the system each year. The necessary tax increases are shown in Table 3. Paying all benefits promised to young workers entering the work force today would require a total Social Security payroll tax rate of about 27 percent, compared to 15.3 percent today. In other words, projected revenues, even under the intermediate assumptions, would be

sufficient to cover only about half of promised benefits.

So far we have only discussed the "intermediate" projections. We must examine as well the projections under the so-called "pessimistic" assumptions. These assumptions are actually quite plausible. The "intermediate" assumptions assume regular price inflation of 4 percent per year, after a period of ups and downs, while the "pessimistic" assumptions assume regular price inflation of 5 percent per year. The intermediate assumptions similarly assume regular unemployment of 6 percent per year, while the pessimistic assumptions assume unemployment of 7 percent per year. A critical assumption for projected payroll tax revenues is the rate of growth of real wages. The intermediate assumptions assume real wage growth of 1.1 percent per year, while the pessimistic assumptions assume real wage growth of 0.6 percent per year. Actual experience in recent decades has been roughly halfway between these two assumptions.

Another critical assumption for future revenue is the fertility rate or rate of lifetime births per woman. The intermediate assumptions assume an ultimate regular rate of 1.9 while the pessimistic assumptions assume a regular rate of 1.6. Actual experience over the last 20 years has again been generally between these two rates, with experience in most other Western industrialized countries even lower.

Still another major assumption is life expectancy in retirement. The intermediate assumptions assume life expectancy at age 65 grows about 20 percent over the next 75 years. The pessimistic assumptions assume that such life expectancy grows 40 percent for males and 32 percent for females over this period. No one can know for sure, but given the potential developments in high technology medical care and other advances over the next 75 years, the pessimistic assumptions certainly seem quite plausible and may even underestimate the real possibilities. Indeed, from 1940 to 1990, life expectancy at age 65 grew about the same rate for males as assumed in the pessimistic assumptions and at an even faster rate for females.

Under these quite plausible "pessimistic" assumptions, tax revenues for all these trust funds combined start to fall short of benefits in 1996, only three years from now, as shown in Table 4. In that year, the federal government would have to come up with an additional \$16.1 billion in 1993 dollars to pay promised benefits. The short-fall grows to \$45.9 billion in 2000, and \$100 billion in 2006, again in 1993 dollars.

Table 4 also shows that the annual general revenue contribution for SMI would grow to \$77.6 billion in 1993 dollars by 2000. Counting the \$45.9 billion Social Security deficit in that year, the total general revenue burden on the federal government to finance all promised Social Security benefits is \$123.5 billion in today's dollars. By 2006, just over a decade from now, this total general revenue requirement grows to \$205.3 billion, again even before the trust funds are exhausted.

All three Social Security trust funds combined actually hit their peak in nominal dollars under these projections in 1999, as shown in Table 5. In constant 1993 dollars, the combined trust funds would total \$527.6 billion in 1999, about the same as today. Indeed, the projected total 1999 trust fund assets would be sufficient to cover just over one year of benefit expenditures by themselves, compared to one year and four months for the current trust funds. Consequently, under these projections, the expected Social Security trust fund buildup to help fund the retirement of the baby boom generation never occurs.

The combined trust funds under these projections would be exhausted in 2007—just 14 years from now. Paying all Social Security benefits in 2010 would require an increase in the total Social Security payroll tax rate of about one-third, to about 20 percent from the present 15.3 percent, as shown in Table 6. By 2020, the total Social Security payroll tax rate would have to almost double to about 27 percent. In other words, total Social Security revenues by that date just 17 years from now would only be sufficient to pay about half of all Social Security benefits. In later years, paying all

Table 4
**General Revenues Needed for Social Security and Medicare Before
Combined Trust Funds Are Exhausted, "Pessimistic" Assumptions**

	Annual Deficits Between Tax Revenues and Expenditures for all Social Security Trust Funds Combined (OASDHI) Constant 1993 Dollars (Billions)	Annual General Revenue Subsidies for Medicare Part D Constant 1993 Dollars (Billions)	Total General Revenues Required for Social Security and Medicare Constant 1993 Dollars (Billions)
1996	16.1	61.3	77.4
1997	20.9	64.5	85.4
1998	27.6	68.7	96.3
1999	36.5	73.0	109.5
2000	45.9	77.6	123.5
2001	54.7	82.1	136.8
2002	62.8	85.8	148.6
2003	71.1	90.5	161.6
2004	80.4	95.2	175.6
2005	89.8	100.6	190.4
2006	100.0	105.3	205.3

Source: Calculated from 1992 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund (April 3, 1992); 1992 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund (April 3, 1992).

benefits promised to young workers entering the work force today would require a total Social Security payroll tax rate of over

40 percent, an increase of almost three times the current rate of 15.3 percent. In other words, projected Social Security revenues

Table 5
**Projected Reserves for All Social Security Trust Funds Combined
"Pessimistic" Assumptions**

	Nominal Dollars (Billions)	Constant 1993 Dollars (Billions)	As a Percent of Annual Social Security Expenditures (OASDHI)
1993	513.1	513.1	128.0%
1994	574.6	540.0	131.0%
1995	629.9	557.7	131.0%
1996	664.9	561.7	127.0%
1997	694.8	559.0	123.0%
1998	715.7	548.4	116.0%
1999	722.9	527.6	109.0%
2000	713.3	495.7	99.0%
2001	684.8	453.3	88.0%
2002	631.5	396.6	74.0%
2003	551.9	329.8	60.0%
2004	444.7	253.4	45.0%
2005	308.4	167.4	29.0%
2006	121.6	62.8	10.5%
2007*	—	—	—

*Total Trust Funds combined are exhausted in 2007.

Source: Calculated from 1992 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund (April 3, 1992); 1992 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (April 3, 1992).

Table 6
Total Social Security Tax Rates
Needed to Finance All Promised Benefits
After Trust Funds Are Exhausted*
(Current Rate Is 15.3%)
"Pessimistic" Assumptions

2010	19.78%
2015	22.97%
2020	26.97%
2025	31.49%
2030	35.52%
2035	38.38%
2040	40.08%
2045	41.21%
2050	42.54%
2055	42.28%
2060	46.33%
2065	48.18%
2070	49.90%

*Assumes continued revenue from Taxation of Social Security benefits and trust any remaining funds needed to pay benefits are raised by insuring payroll tax rates.

Source: Calculated from 1992 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund (April 3, 1992).

under these assumptions would be sufficient to cover only about one third of promised benefits.

But even this is not the worst plausible scenario. Economic performance in the 1990s could be like the 1970s, with unemployment rising and real wages falling behind rapidly rising inflation. At the same time, high-tech medical breakthroughs could rapidly advance old-age life expectancy beyond even the "pessimistic" assumptions, while fertility rates could fall to Western European levels at or below the pessimistic assumptions. Some or all of these quite possible developments would create even more gaping deficits, and require even more draconian tax increases to pay promised benefits.

But tax increases approaching two to three times current levels could never be adopted. Indeed, the current payroll tax is already far too high, seriously hampering economic growth and limiting job opportunities for today's workers. The payroll tax is basically a tax on employment. To the extent it is borne by employers, it discour-

ages them from hiring. To the extent it is borne by workers, it discourages them on the margin from working as much as otherwise. The overall result is fewer jobs, less work, and slower economic growth. Here, as elsewhere, the result of taxing something, in this case employment, is that there is less of it.

Indeed, one study estimated that just the payroll tax rate increases that went into effect in 1988 and 1990, raising the total payroll tax rate from 14.3 percent to 15.3 percent, ultimately eliminated one million jobs and reduced GNP by \$25 billion per year.³ In a society supposedly deeply concerned about employment opportunities, the tax burden the government places on employment is absurd. The debate should be over payroll tax cuts, not increases. In any event, increases of the magnitude necessary to pay promised Social Security benefits in the future are clearly economically and politically infeasible.

As a result, today's workers will never receive the benefits currently promised to them by Social Security, even though they are paying thousands of dollars each year for such promised benefits, and will do so for their entire careers.

Conclusion

The long term financial crisis of Social Security is not the only problem justifying the abolition of the system. The program's payroll taxes are now so high that even if all the promised benefits are somehow paid, these benefits would still represent low, below-market returns, on the thousands of dollars today's young workers must pay into the system each year for their entire careers. For most young workers the benefits would represent a real rate of return of around 1 percent or less, and to many the return would be close to zero, or even below zero. These workers could now receive much higher returns and benefits investing through the private sector. Average-income workers could accumulate over half a million dollars in today's terms by retirement, and more than a million for two-earner

average-income families, for the same sums now paid into Social Security. This makes the inevitable inability of Social Security to pay even the currently promised inadequate benefits all the more troubling.

The Social Security benefit structure is also rife with inequities, paying some workers much less in returns on their tax dollars than others. Indeed, many workers are forced to pay for benefits under Social Security that they can never even qualify for or receive. Most fundamentally, Social Security deprives workers of the freedom to control the large sums they are now paying into the system each year. The long-term financial problems of Social Security should not be allowed to obscure these many other critical problems.

Social Security's financial problems, as well as the other problems discussed above, can ultimately be solved only by shifting to a fully funded system of private savings and investment. Such a system would avoid the inherent vulnerability of pay-as-you-go financing and accumulate a vast reserve of economically productive private sector assets to back up benefits. Through such a system, young workers could also obtain the much higher returns and benefits now avail-

able to them through the private market, in the process accumulating large family nest eggs in their retirement accounts. Workers would also have control and freedom of choice over the large sums they would pay into and accumulate in such a system. The same market returns would be available to everyone, and workers could tailor their benefit packages to suit their personal needs and preferences. They would never have to pay for benefits they did not need or could not even qualify for.

Such private systems have been adopted in recent years in Chile and, in part, in Great Britain, and have been broadly popular in both countries. There is no reason why such a system could not be adopted in the United States as well. □

1. This statement was quoted over and over again from the 1978 *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, D.C.: U.S. Government Printing Office, May 15, 1977), p. 3.

2. 1980 *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund* (Washington, D.C.: U.S. Government Printing Office, June 17, 1980).

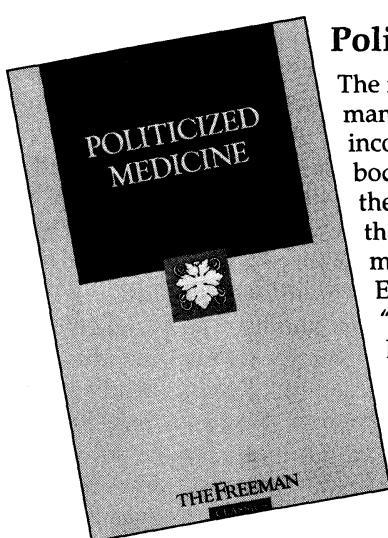
3. Aldona and Gary Robbins, *Effects of the 1988 and 1990 Social Security Tax Increases*, Institute for Research on the Economics of Taxation, Economic Report #39, February 3, 1988.

Politicized Medicine

The right to health care services and benefits, which so many are proclaiming today, is merely the right to seize income and wealth from other individuals through the body politic. The essays in *Politicized Medicine* provide the reader with a thorough understanding of why further government intervention into health care will make matters worse.

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THE POLITICS OF THE “FAIR SHARE”

by Gary North

Daniel Patrick Moynihan, U.S. Senator from New York and former Harvard professor, has told the press not to blame Congress for spending too much money, since “we can’t do anything about it.”

Don’t blame those who are leading the nation into a debt disaster? Don’t blame them because they cannot stop themselves? Senator Moynihan may have been indulging in verbal playfulness—enhancing his reputation for being a kind of mischievous Irish leprechaun. What he is saying, however, is that those who pass the legislation should not be held politically accountable. Because the voters continue to return these people to office, it appears that the voters agree. Worse, it appears that the voters want more of the same. They may say that they want Congress to stop spending in general, but they are not willing to say that Congress should stop specifically. If voters will not vote in terms of the need to stop spending specifically, their call to stop spending generally has no teeth in it—no political sanctions. The politicians respond only to political rewards and threats. There are no great rewards for spending less on specific projects. On the contrary, there are penalties. The politicians

vote accordingly: more spending on specific projects.

Out of Control

If someone is both out of control and is a threat to others, he is supposed to be placed under restraint by the civil authorities. What happens when it is the civil authorities who are out of control? We are seeing the answer to this question. We are eyewitnesses to a looming disaster—a disaster financed by our money and resources.

Political institutions in a free society do not become a threat to the voters overnight. The process takes a long time. Economists prefer to explain the process of decline in terms of incentives: Somehow, destructive behavior is being subsidized. Political scientists explain such defects as products of poorly designed political institutions. Sociologists appeal to broad social forces that pressure politicians to do destructive things. Moralists search for evil intentions on the part of those who hold power. Theologians may go so far as to say that destructive political orders are God’s judgment on rebellious societies. Everyone has his favorite explanation. Everyone wants to lay blame somewhere . . . usually somewhere else. Almost everyone wants to evade responsibility. And that is the heart of the problem.

Dr. North is president of The Institute for Christian Economics in Tyler, Texas.

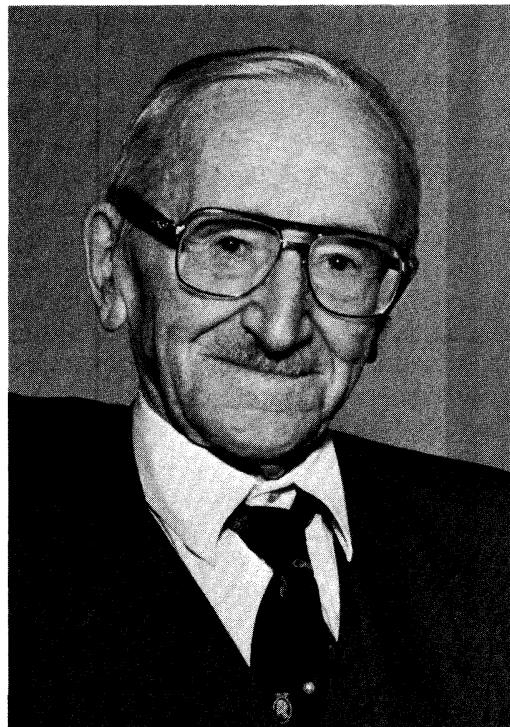
In the Hearts of the People

In the eighth century B.C., the prophet Isaiah warned the nation of Judah: "How the faithful city has become an harlot! It was full of justice; righteousness lodged in it; but now murderers. Your silver has become dross, your wine mixed with water: Your princes are rebellious, and companions of thieves; every one loves bribes, and follows after rewards. They do not defend the fatherless, nor does the cause of the widow come before them" (Isaiah 1:21–23). But he did not lay the blame solely on the rulers; he laid it on the whole nation: "Alas, sinful nation, a people laden with iniquity, a brood of evildoers, children who are corrupters! They have forsaken the LORD, they have provoked to anger the Holy One of Israel, they are turned away backward" (Isaiah 1:4).

Isaiah recognized that the rulers were representatives of the people. The rulers did evil things because the people in their own lives were also doing evil things. This is not to say that all the people were guilty of rebellion. The prophet Elijah was told that a remnant still existed in Israel: a small group of seven thousand people who had not bowed to Baal (1 Kings 19:18). But the majority of the nation was involved in rebellion. Their political institutions had not preserved the nation from evil.

Friedrich Hayek wrote in 1944 in *The Road to Serfdom* that in a political order that promotes compulsory wealth transfers, the worst people will rise to the top. The lure of power increases when power is concentrated at the top. The ruthlessness required to rise to power in such a power-driven political order will ensure that the worst get on top. He wrote this in the era of Adolf Hitler and Joseph Stalin.

Hayek's critics denied his argument. They denied that it was socialism as such that allowed Hitler and Stalin to come to power. They insisted that other factors must have been involved. But from 1944 to the fall of the Soviet Union in 1991, the worst kept rising to the top in the countries with the most centralized economies.



Friedrich Hayek
(1899–1992)

MATT RICHARD

Hayek blamed the economic system: socialism. The West's socialists blamed the political system: anti-democracy. The Communists blamed counter-revolutionary forces: saboteurs. But almost nobody blamed the people who lived under tyranny.

Long before Lenin appeared on the scene, European intellectuals and politicians had accepted the economic premise of Communism: the need to establish a state that would redistribute wealth from the rich to the poor. It was not some raving liberal or radical who created the modern system of compulsory welfare; it was the conservative German politician, Otto von Bismarck, who did so in the late 1870s. The common people rejoiced, just as Bismarck knew they would. Even today in Germany there are millions of common workers who still believe that Communism at least protected them and their jobs, despite their long-term poverty. The ideal of the welfare state still is dominant in the one society that experienced the nightmare of both National Socialism and International Socialism: Germany.

The Politics of “Fair Shares”

When a politician speaks of everyone paying his fair share of taxes, he always means the rich should pay a higher percentage of income than the poor. Meanwhile, politicians offer to the middle class—the eligible voters who actually vote—their fair share of the loot that will be stolen from others by means of the ballot box. Almost no one questions the legitimacy of using the ballot box to confiscate the wealth of others. The debate centers around who should pay their fair share—“someone else”—and those who will collect their fair share: “us.”

One question is never raised in public: What will be everyone’s fair share of judgment when the political theft process produces economic disaster and political revolution? Everyone assumes that disaster can be deferred at least until after the next election. Everyone assumes that the bills will come due later: “Someone else will have to pay them.” But eventually, bills come due.

When they do, societies face their moment of truth. As Hayek says, the worst will then be ready to rise to the top. Blame will be placed, but on whom? On which groups? The politics of revenge will be the great temptation. The politics of envy will have a large constituency.

At that point the remnant must be prepared to announce the truth. What is the truth? In the words of cartoonist Walt Kelley’s Pogo Possum, “We have met the enemy, and he is us.” This is simply an extension of Isaiah’s prophetic observation: “All we like sheep have gone astray; we have turned every one to his own way; and the LORD has laid on him the iniquity of us all” (Isaiah 53:6). This must be our confession before we blame the intellectuals and the politicians.

The Culture of Spending

The remnant faces a barrier to this truth in today’s pre-crisis political economy. Those who are willing to say no to their fair share are few and far between, especially in the centers of political power. Those who insist

on their fair share have the ear of Congress. How did this happen?

James L. Payne has offered a unique and powerful thesis to explain why this has happened. The reason why Congress continues to pass huge spending bills in the face of massive annual deficits, he says, is that Congressmen live in a nearly closed universe in which the vast majority of the people they talk to or hear from want them to spend tax dollars on specific projects. This closed universe is the culture of spending.¹

Lobbyists in Washington rarely lobby against spending proposals. Constituents rarely write letters opposing specific spending proposals. Colleagues rarely organize major defenses against specific spending proposals. This even includes political liberals who we might think would oppose almost all military spending. Hearing nothing else, most politicians eventually learn to play their favorite instruments in this symphony of spending.

If this thesis is correct, Payne says, then the longer a politician stays in Washington, the more consistently he will vote for spending. He will be assimilated into the culture of spending. Payne offers statistical evidence to show that this is exactly what happens.

Payne argues that the culture of spending rests on two assumptions: the presumption of government efficiency and the philanthropic fallacy. It is presumed by almost everyone that the civil government can and should use its monopolistic coercive powers to “make things better” by imposing negative sanctions (taxes) on certain groups in order to grant positive sanctions (benefits) to other groups. This is the underlying theoretical assumption of the politics of the fair share.

Three-quarters of all government spending now goes to the purchase of personal goods and services that individuals could buy for themselves, not the purchase of usual public goods: police, courts, roads, etc. Citizens who oppose such wealth transfers are regarded as opponents of the public good, when in fact they are merely trying to retain more of their own wealth to do for

themselves what civil government plans to do for them, minus 50 percent for handling (approximately what it costs the government to administer its programs).

Just about every special interest wants more spending. Politicians find ways to give this to them. The culture of spending rolls on. Writes Rupert Penman-Rea, the retiring editor of the 150-year-old British weekly magazine, *The Economist*: "If lobbying has a shrine, it is in Washington, D.C. No self-respecting lobbyist can feel his career is fulfilled until he has made the pilgrimage there, and mastered the rites of the priesthood. There are about 80,000 lobbyists in Washington, twice as many as ten years ago. They even have their own American League of Lobbyists, which I hope is a deliberate parody."

But this phenomenon is not strictly American. "In all Western democracies," he says, "lobbying has long since become a mature industry." In early days, lobbyists asked for more specific spending and specific tax relief. But in the 1970s, everyone got into the game. Then the taxpayers started to complain. The politicians turned to borrowing and inflating the currency. "More spending, more taxes, more borrowing, more inflation: each stage of the sequence damaged general economic welfare while benefiting the organized rowdies." Today, he believes, the special interests are facing governments that have run out of resources. He predicts that governments will now turn to that age-old favorite: protectionism.² This will reduce almost everyone's wealth.

The False Morality of the Welfare State

Every culture rests on moral presuppositions. The culture of state spending rests on a false one: the widespread belief that the

state is a morally legitimate instrument of coercive wealth redistribution. Until this moral presupposition is abandoned by most voters—a moral conversion which may have to be stimulated by the attention-getting occurrence of national bankruptcy (deflationary or inflationary)—there are no believable technical solutions to the culture of spending. Technical political solutions are necessary but not sufficient for overcoming the culture of spending, which is a religiously grounded viewpoint. This deeply religious impulse is made clear in Jack Douglas' monumental book, *The Myth of the Welfare State*, which should be a companion volume to *The Culture of Spending*.

In a society in which a majority of voters accept the role of the state as a source of wealth redistribution as morally valid, there will be widespread negative consequences. Politically, voluntary cooperation will be replaced by interest-group politics and the confiscation of private wealth. The worst will begin to rise to the top. This will eventually lead to an economic crisis and a loss of confidence in the prevailing social order. It is then that principled men must say no to the politics of the fair share. They must be ready to present both a moral critique of the culture of spending and a technical critique. It is not enough to show enraged, envy-driven voters that the welfare state has failed to deliver the goods. Voters must be reminded that their own false morality has led them into a crisis, and that repentance—a change of mind—is necessary for social healing. The culture of spending must be shown to be the moral low ground, not just an inefficient solution to the problem of scarcity. □

1. See James L. Payne, *The Culture of Spending* (San Francisco: ICS Press, 1991).

2. "An editor's farewell," *The Economist* (March 27, 1993), p. 17.

BOOKS

Social Security: What Every Taxpayer Should Know

by A. Haeworth Robertson

Retirement Policy Institute, Washington, D.C.
Order from: Retirement Policy Institute,
Publications Division, P.O. Box 240242,
Charlotte, NC 28224 • 1992 • 321 pages
\$40.00 cloth; \$14.95 paperback

Reviewed by John Attarian

Misunderstandings surrounding Social Security are on a scale comparable to its size and impact on our national life. Millions of Americans believe that they only recover in benefits what they paid in taxes; that their taxes are "invested" in a "trust fund" accumulating assets to pay "insurance"; that benefits are "bought and paid for," an "earned right" which is "guaranteed." This misunderstanding, "the most serious threat to Social Security in the immediate future," prompted A. Haeworth Robertson, Chief Actuary of Social Security from 1975 to 1978, to produce an excellent handbook for taxpayers.

In clear, readable text, assisted with numerous helpful charts and tables, Robertson first describes the basics of Social Security—the benefit system, costs, the payroll tax system, and the two basic methods for financing Social Security: current-cost financing ("pay-as-you-go"), whereby current taxes pay current benefits; and advance payment, whereby current taxes accumulate a large trust fund to pay future benefits. The next 17 chapters address selected topics, e.g., actuarial assumptions, inflation and cost of living adjustments, how Social Security determines behavior, and Medicare.

Robertson masterfully describes two key measures of Social Security's financial condition, "actuarial deficits" and "accrued liabilities," often confused in the public mind. "Actuarial deficits" are the excess of projected future costs over projected future

income. Social Security's total actuarial deficit, including Medicare, is an eye-popping \$13.2 trillion over the next 75 years. "Only the foolhardy would continue to ignore the longer range financial problems projected for the Social Security program. . . It is a question of whether we are making promises we will not be able to keep."

"Accrued liabilities" are the present value of future benefits which have accrued as of a certain date. As of January 1, 1990, Social Security's unfunded accrued liabilities were \$12 trillion. That is, "we have made promises worth \$12 trillion more than we have collected in taxes [to honor them]."

The situation is even bleaker than Robertson reports. The 1990 annual report of Social Security's Board of Trustees, which he consulted, predicted exhaustion of Social Security's trust funds in 2043 (2023 under pessimistic assumptions); 1993's report projects exhaustion sooner: in 2036 (pessimistically, in 2017). Medicare's 1993 report projects trust fund exhaustion in 1999 (pessimistically, in 1998).

Social Security's looming financial crisis is rooted in demographics. As the huge baby-boom generation retires, Social Security's costs will soar, but our falling fertility rate means fewer and fewer taxpaying workers will support each beneficiary. Thus the enormous actuarial deficits. "Unfortunately these long-term projections and their significance do not appear to be widely known and understood by the public or the Congress or the Administration."

Social Security is widely misunderstood partly because its low initial cost fostered complacency. Also, being poorly informed about the program, the media misleads the public. And government use of insurance terminology ("trust fund," "contribution," etc.) creates a false impression of Social Security's nature. Hence, government and public alike take an unacceptable "head in the sand" approach.

For example, the Supplementary Medical Insurance program myopically estimates costs only three years ahead. And in a valuable discussion of the actuarial assumptions about our future fertility rate, produc-

tivity, and death rate which the Social Security Administration uses to project Social Security's future status, Robertson cogently argues that the SSA's assumptions are too optimistic, and that pessimistic projections should be used, to avoid unforeseen negative developments.

Discussing Medicare, Robertson acknowledges that the "third party payer" principle contributed heavily to our soaring health care costs by destroying incentives for cost control, and cautions against national health insurance: "it is questionable whether there is anything inherent in a nationally designed and managed system that would not also work in a decentralized, free-enterprise system . . . If individual freedom of choice is relinquished to attain a uniform social insurance structure, it may soon be relinquished in other areas of life as well."

Social Security's march to the abyss prompts the thought that dismantling it would be the wisest policy. Unfortunately (if understandably), Robertson asserts that abolishing Social Security is "out of the question," that social insurance is "absolutely necessary" in modern society. He does call for change, which might entail a separate scheme for young people.

Also, Robertson inadvertently illustrates the philosophical muddle of America's welfare state. He argues that Social Security will give us our money's worth if designed on the principles of maximum individual freedom of choice consistent with the national interest, maximum individual opportunity and incentive, and government provision of only those benefits an individual cannot provide for himself. Yet he also contends that "Social Security is a program of social insurance. It emphasizes social adequacy. It pays benefits according to presumed need," and that in such a program "no attempt is made" to relate a given group's benefits to the taxes it paid to qualify for them. That this is an admission that America's largest welfare program applies the evil Marxist principle "From each according to his ability, to each according to his need," escapes his notice.

Nevertheless, *Social Security's* merits outweigh these flaws. Its thoroughness, accessibility, and comprehensiveness make it indispensable for everyone concerned about Social Security, including opponents.

Best of all, Robertson is unflinchingly honest. He repeatedly warns taxpayers that they face substantially higher taxes unless Social Security is radically altered; that the notion of entitlement is dangerous; that misunderstandings about Social Security are abetting an "alarming" decline in a sense of responsibility for oneself; that future costs will probably exceed the SSA's "most likely" projections; that general revenue financing would encourage disregard for the future; and that "It is clearly inappropriate . . . to rely upon some undefined good fortune to enable us to continue our present Social Security program without paying substantially higher costs." He emerges as a believer in Social Security haunted by a vivid awareness of its costs and perils, and blessed with an honest man's determination not to dissuade his reader by minimizing them. After so much calculated deceit in federal budget policy in recent years, Robertson's courage and candor are just what the doctor ordered. □

John Attarian is a free-lance writer in Ann Arbor, Michigan with a Ph.D in economics, and an adjunct scholar with the Midland, Michigan-based Mackinac Center for Public Policy.

Mises: An Annotated Bibliography: A Comprehensive Listing of Books and Articles by and About Ludwig von Mises

Compiled by Bettina Bien Greaves and Robert W. McGee

The Foundation for Economic Education, Inc., 1993 • 408 pages • \$29.95

Reviewed by Israel M. Kirzner

This is, quite simply, an extraordinary work. The reference, in its title, to an "annotated bibliography," is grossly, al-

most laughably, inadequate as a description of it. Even its subtitle fails to convey its phenomenal and fascinating scope. This book not only provides a "comprehensive listing" of relevant material; it provides in most cases, excerpts from, or succinct characterizations of, the material referred to. This has resulted in an encyclopedic treasurehouse of materials and information regarding Mises, his works, and the reactions of hundreds upon hundreds of reviewers and authors to his ideas and his writings. Dozens of future doctoral dissertations could be planned based on the wealth of information and bibliographical citations included here, covering sources spanning some 80 years and translated from many languages. As a bibliographical compilation this is utterly unique. Its compilers richly deserve doctorates of their own for the scholarship and indefatigable research which this work so obviously reflects.

Some of the material included here (for example, the full translations of a number of the reviews—including one by Knut Wicksell—of Mises' 1912 first German edition of *The Theory of Money and Credit*) will be extremely valuable for the historian of economic thought. Many of the excerpted reviews of the early editions of Mises' *Socialism* provide fascinating insights into the interwar mentality on the topic. It is certainly not surprising to read that as ardent a socialist as Harold Laski described Mises' book as an "extravagant and often ignorant diatribe" (p. 162). It is an eye-opener to read that as eminent an economist as Frank Knight dismissed the entire debate concerning economic calculation as "largely sound and fury," declaring that "Socialism is a political problem . . . and economic theory has relatively little to say about it" (p. 162). Some of the material provides arresting (often wry) commentary on personal aspects of Mises and his relations with other scholars. For example, one reads (on p. 253) with a certain fascination, University of Vienna Professor Hans Mayer's tribute to Mises on his 70th birthday, bearing in mind Mises' own description of Mayer as having preoccupied himself, during Mises' years at

the University of Vienna "with mischievous intrigues against me (*Notes and Recollections*, p. 94)." Among so many thousands of pieces of information—the index contains more than 2,500 entries—certain parallels and contrasts pop out, adding to the interest of the volume. (As an example: A passage cited [on p. 322] from a German-language 1974 book by Engel-Janosi concerning Mises' openness in his famed *Privatseminar*, to the articulation of opposing views, seems to be a *verbatim* parallel to a 1973 German-language newspaper article by M. Steffy Browne, cited on p. 311.)

If the bibliography of Mises' own works is spectacularly exhaustive (going far beyond that outstandingly valuable earlier bibliography compiled by Bettina Bien Greaves and published by The Foundation for Economic Education in 1970), it is the "listing" of books and articles *about* Mises (going only up to 1982—while the book reviews include items from later years) which is most extraordinary. Certainly no economist has ever before been accorded this kind of attention. Listed are not only books and articles about Mises, but books and articles in which the *slightest* reference to Mises is made. One can only marvel at the detective work that must have gone into the tracking down of such references in unpublished doctoral dissertations (as on pp. 325, 332, 349, 355, 371), in the autobiography of a priest (p. 347), in a letter to *Business Week* (p. 324), or in a 1981 Spanish-language Buenos Aires article arguing that Mises' views do not contradict those of Aquinas (p. 381).

I would be less than candid if I did not register my fear that the inclusion of many references (for example those to somewhat repetitious laudatory assessments of Mises at special commemorative occasions, or those to rather trivial comments, or those which appeared in obscure, ephemeral publications) may lead the critical outside reader to dismiss the entire volume as a pious exercise in hagiography. This would be most unfortunate and quite unfair. Although the inspiring and utterly splendid loyalty of Bettina Bien Greaves to Ludwig

von Mises shines through this work, she and Professor McGee have bent over backwards to include the negative (often outrageous!) comments of the critics of Mises, as well as the praise of Mises' admirers. Certainly this work valuably records the reactions of hundreds of writers to the work of Mises, the champion of liberty. But its lasting scholarly value lies in its being an important, objective, and remarkably researched source concerning Mises, the eminent economic theorist.

I confidently expect that many of us will be consulting this wonderful volume again and again. Bettina Bien Greaves, Robert McGee, and The Foundation for Economic Education are to be warmly congratulated on this valuable contribution to the growing Mises literature. As the value of Mises' own contributions to economic understanding will come to be more and more widely recognized in the years to come, the significance of the patient and dedicated research which culminated in this work will be sure to increase correspondingly—and to be correspondingly appreciated. □

Dr. Kirzner is Professor of Economics at New York University.

The Ruling Class: Inside the Imperial Congress

by Eric Felten

The Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, DC 20002
222 pages • \$24.00 cloth; \$2.95 abridged paperback edition

Reviewed by Peter F. Steele

The *Ruling Class: Inside the Imperial Congress* is a definitive study of the workings of the late twentieth-century federal government using Congress as the focal point. It is very successful in its description of a byzantine Congress and its schemes and "scams." It is an ideal companion to Martin L. Gross' *The Government Racket: Washington Waste From A to Z* since it provides a window to the wasteful programs and pork

barrel projects born in a Congress bent upon creating a "Barnumoeconomy" in a "Barnumocracy."

Probably the most cogent evidence Felten's work provides is that many Congressmen have truly abdicated their responsibilities as legislators while avoiding accountability for the laws made and the positions taken.

Chapters one through eight, respectively titled as "Sleight of Hand," "The Bullies' Pulpit," "Legislating Backwards," "Staff Infection," "The Grand Inquisitors," "Other People's Money," "Not-So-Innocents Abroad," and "The Re-election Machine," all define the present system, contradictory to the limited and fair government originally propounded by our Founding Fathers after the American Revolution. Chapter nine enumerates helpful suggestions for honest reforms in Congress. Those in our society and government who do care about matters across political, economic, and social lines would find the material in this chapter worth the cost of the book. □

Mr. Steele is a free-lance writer from Stamford, Connecticut.

Prosperity Versus Planning: How Government Stifles Economic Growth

by David Osterfeld

Oxford University Press • 285 pages • \$39.95 cloth; \$19.95 paperback

Reviewed by William H. Peterson

David Osterfeld in his *Prosperity Versus Planning*, a scholarly and most worthwhile book supported by the Cato Institute, argues on both theoretical and empirical grounds that government planning and economic growth don't mix, that the interventionist paradigm spells planned chaos, that it is deadly to development at home and abroad, that, again, it is wiser to work with than flout the law of opportunity cost.

Professor Osterfeld accordingly sees foreign aid as mainly counterproductive to

Third World development, underwriting as it does entrenched governments which soon detect a way to maintain power and accumulate private wealth in Switzerland and other havens for "hot money." He cites the work of Lord Peter Bauer and African economist George Ayittey on how foreign aid has grievously set back African and other development. And he sees that attacks in the United Nations and elsewhere on foreign investment and multinational corporations are blind to the benefits of private foreign investment, technology transfers, and job creation in viable Third World industries competing in world markets.

He especially excoriates both the U.N.'s Brandt Commission Report, *North-South: A Program for Survival*, and the United Nations Code of Conduct on the Transfer of Technology adopted in the early 1980s. These documents condemn "market failure" and recommend government-to-government assistance along with Third World interventionism in such forms as government regulation, price controls, and state-owned enterprises so to control what the United Nations regards as inappropriate technology. Said the Brandt Report, for example: "The poorer and weaker countries have not been able to raise much money on commercial terms. For them, Official Development Assistance or aid is the principal source of funds . . . An increase in total aid must remain a high priority . . . The overall flow of wealth must increase . . . The overwhelming proportion of aid money has been usefully spent [and has] done much to diminish hardships in low-income countries."

Professor Osterfeld rejects these tenets as untrue and holds the free market and not government intervention is a much more effective and far less costly method of regulation. Here he stresses the role of economic calculation in explaining why state-owned enterprises and central planning in general are doomed to failure. Economic calculation, based on free markets, per-

ceived opportunity costs, and private property rights, permits the price system including interest rates to best "regulate," i.e. allocate, goods and other scarce resources to their most urgently desired applications. Economic calculation is at the center of economic development, the very secret of the North's long-time economic success and perhaps of Western Civilization itself.

The plight of the interventionists and socialists, notwithstanding elaborate planning boards and Five-Year Plans, is that without the benefit of economic calculation they are flying blind, that they are the bland leading the bland. And hence they are wide open to corruptible temptation and perverse political pressures. Osterfeld quotes Mises: "No single man can ever master all the possibilities of production, innumerable as they are, as to be in a position to make straightaway evident judgments of value without the aid of some system of computation."

Amen. □

Dr. Peterson is an adjunct scholar at the Heritage Foundation and a contributing editor of The Freeman.

As we prepared final proofs for this issue, we learned of the sudden death of Dr. David Osterfeld on September 26, 1993, at age 43. Dr. Osterfeld was a professor of political science at St. Joseph's College, Rensselaer, Indiana, and an adjunct scholar at the Heritage Foundation.

David Osterfeld's first Freeman article was published in 1972 while he was a graduate student at the University of Cincinnati. Over the years he contributed more than a dozen articles—all carefully researched, meticulously documented, cogently written. His September 1993 Freeman essay, "Overpopulation: The Perennial Myth," was reprinted in Man and Nature, FEE's recently published anthology on environmental issues.

THE FREEMAN

IDEAS ON LIBERTY

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Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$25.00 or more receive a subscription to *The Freeman*. Student subscriptions are \$10.00 for the nine-month academic year; \$5.00 per semester. Additional copies of single issues of *The Freeman* are \$2.00. For foreign delivery, a donation of \$40.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available on microfilm and CD-ROM from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. A computer diskette containing the articles from this month's issue is available from FEE for \$10.00; specify either 3½" or 5¼" format.

Phone (914) 591-7230
FAX (914) 591-8910

PERSPECTIVE

An Ancient Principle

The reason I am opposed to the Federal Department of Education is that it represents a very ancient principle in the field of education, which, it seems to me, has been one of the chief enemies of human liberty for several thousand years—the principle, namely, that education is an affair essentially of the State, that education must be standardized for the welfare of the whole people and put under the control of government, that personal idiosyncrasies should be avoided. This principle of course, was enunciated in classic form in ancient Greece. It is the theory, for example, that underlies the *Republic* of Plato. But the principle was not only enunciated in theory, it was also, in some of the Greek states, put into practice. It is a very ancient thing—this notion that the children belong to the State, that their education must be provided for by the State in a way that makes for the State's welfare. But that principle, I think you will find if you examine human history, is inimical at every step to liberty.

—J. GRESHAM MACHEN
Education, Christianity and the State

The Value of Families

Separation, divorce, and failure to marry, rather than lack of economic opportunity, are responsible for many of the economic problems experienced over the past two decades.

The breakup of the traditional American family largely accounts for the anemic increase in median household income, the failure to reduce the poverty rate more quickly and an increase of 10 percent in the income disparity between rich and poor households since 1970.

In 1969, 70 percent of all households were married couples, 11 percent were single-parent families and 19 percent were non-family.

By 1989, only 56 percent of households were married couples, while the single-parent households had increased to 15 per-

cent and nonfamily households had mushroomed to 29 percent.

Had it not been for this change between 1969 and 1989:

Real median family income, which increased by only 2 percent, would have increased by 13 percent.

The poverty rate would have dropped from 14 percent to 10 percent instead of 12 percent.

The income inequality between rich and poor households, which grew by 10 percent, would have increased by only 5 percent.

—EXECUTIVE ALERT

The Sins of the Intellectuals

The intellectual leaders of the peoples have produced and propagated the fallacies which are on the point of destroying liberty and Western civilization. The intellectuals alone are responsible for the mass slaughters which are the characteristic mark of our century. They alone can reverse the trend and pave the way for a resurrection of freedom.

—LUDWIG VON MISES

To the Editor:

I am writing in response to "Vietnam: A Fate of Its Own" (May 1993).

In Vietnam, a cab driver had to bribe a policeman \$3 to avoid being arrested while transporting foreigners for hire. In America, you have to pay an investor \$100,000 for a medallion before going into business, or police will arrest you for cutting in on an unconstitutional, government-protected monopoly.

Sincerely,
TOM ALCIERE

Historic Quotes

Edmund Burke said, "Men qualify for freedom in exact proportion to their disposition to put moral chains on their own appetites. Society cannot exist unless a controlling power is put somewhere on will

and appetite, and the less of it there is within, the more there must be without. It is ordained in the eternal constitution of things that men of intemperate minds cannot be free. Their passions forge their fetters."

Profligacy Hits the Jackpot

With compulsory taxes absorbing so high a proportion of income, it may appear paradoxical to speak of voluntary taxes. But what is a government lottery, if not a voluntary tax? Certainly, a person may avoid the tax by not participating in the lottery.

The state of New York spends millions of dollars each year to try to prevent illegal gambling. One might conclude that the lawmakers believe gambling is an evil which should be suppressed. But no; we find the state permitting and even encouraging certain types of gambling. Bingo is permitted under certain conditions and betting at race-tracks where the state gets a heavy "cut" is encouraged.

And now, the statewide lottery to raise money for "education"! The state felt it needed more general revenue than it could raise through its many tax sources. So, why not try a "voluntary" tax like a lottery, and call it "education"? This might remove the onus for some who think gambling is a little bit evil and who do not realize that this is just another way of swelling the general revenues of the state.

Regardless of how one may appraise the moral aspects of gambling, there seems little doubt that a state lottery operates as a regressive tax, taking heavily from the poor, even though voluntarily. Historically, governments that have resorted to lotteries have had in common a tendency toward decadence. The state lottery feeds the idea of "something-for-nothing" already far advanced in this country. From the standpoint of the lawmakers, it is a "last resort," desperation effort to fill the coffers of a profligate state.

—W. M. CURTISS, "Taxation Theory," reprinted in *Taxation and Confiscation* (FEE, 1993)

THE ECONOMIC WAY OF THINKING

PART 3

THE FREE MARKET SYSTEM

by Ronald Nash

Prior segments of this eight-part series explained the nature of economics, especially the way in which scarcity forces us to rank our options and make choices. They also discussed the importance of recognizing that all economic value is subjective. A necessary third step in becoming economically literate includes understanding what “the market system” is and how it operates.

Different Kinds of Markets

One reason some people have trouble grasping the meaning of the word “market” is because the word is used to refer to trading in different kinds of commodities as well as to trading that goes on at increasingly general levels. For example, a mother can tell her son to run over to the market and buy six ears of corn. The owner of that store can tell one of his employees to go downtown and buy twelve dozen ears of corn from the

market; in this second case, the market is a single seller (or group of sellers) who wholesales to merchants. The wholesaler may then ask someone to check how corn is doing that day on the futures market. For a single commodity like corn, there are a number of different markets.

Markets differ of course in more ways than size and general level. We speak of different markets for different kinds of things. There are stock markets and bond markets. There is the new car market and the used car market. There are markets in which collectibles like coins, stamps, paintings, and even comic books are traded.

The word “market” in this essay does not refer to any of the specific markets already mentioned, although it does include them. Specific markets are places where two or more people exchange goods and services. The *market* that I’ll be discussing is the set of procedures or arrangements that prevail throughout a society which allows voluntary exchanges. In one sense, the market is the framework of customs and rules within which specific voluntary exchanges in specific markets take place. Instead of talking simply about “the market,” we could refer instead to the market system.

Dr. Ronald Nash is a contributing editor to The Freeman and professor of philosophy and theology at Reformed Theological Seminary in Orlando. He is the author or editor of 25 books including Poverty and Wealth: Why Socialism Doesn't Work (Probe Books) and Worldviews in Conflict (Zondervan).

The Market System

What economists call "the market" is not a specific place or thing. Neither is it simply the collection of particular markets in which goods and services are exchanged. Rather, it is a spontaneous and impersonal order of arrangements that serves as the framework within which individual human beings make economic choices.

One example of a spontaneous and impersonal order is an urban traffic pattern. As a city develops and grows over a long period of time, certain traffic patterns evolve. Any one getting into a car in preparation for a drive across town must make numerous choices in response to such things as one-way streets, traffic lights, stop signs, and speed limits. Such traffic patterns are *impersonal* because they apply to everyone; they were not designed just for college graduates or white people or Presbyterians. The traffic order is also *spontaneous* in the sense that it evolved more as a result of trial and error than as the end product of a 50-year plan. People learned that traffic flowed more safely and smoothly, for example, with a traffic light at one intersection and a stop sign at another.

While the traffic pattern lays down rules, people still have a considerable degree of freedom as to how and where they will drive. The traffic pattern does not force anyone to drive down only one street, for example. This example of an urban traffic pattern illustrates how a spontaneous and impersonal set of arrangements can help produce order, prevent chaos and harm, and still allow for a considerable degree of individual freedom.

What we call the market functions in much the same way. It lays down rules that provide a framework for economic exchanges. Among other things, those rules say that people should not be coerced into making economic exchanges. Such exchanges should be free from force, fraud, and theft. People should honor their contracts.

Economist Ludwig von Mises once referred to the dynamic character of the market by describing it as a process. The market

is not static; it is in a constant state of change. How could it be otherwise since behind the actions of people in the market lie the innumerable and constantly changing value judgments of that countless number of economic agents?

No human invented the market process. It is an impersonal social institution in which individual people make economic choices in accord with their personal value scales. The market simply provides the institutional order or the framework of rules within which these choices are made.

The Market and Social Order

One of the more remarkable features of the market is the way it produces order where we might well expect to find chaos. One way to see the emergence of such order is to reflect on the extraordinary way in which the most ordinary wants of people in a free society are satisfied. The reader can do this by making a list of all the goods and services he wants and finds obtainable over a period of several days. My own list would begin with orange juice from Florida, coffee from Brazil, and toast made from wheat grown in Kansas, milled into flour in Illinois, and baked into bread in Tennessee. My list would also include shoelaces, a razor blade, toothpaste, shampoo, clothes, gas for my car, and the paper on which I am writing these words. For each of us, the list would be very long and complicated.

Most of us lack the ability to make or provide most of the goods and services we want. How then do we persuade others to do all these nice things for us? When I go to a grocery store, the things I want are there. This is just as true of the drugstore, the gas station, and the department store. When I need a plumber or electrician or dentist or auto mechanic, someone is there ready to satisfy my want. Do people supply all these nice things because their primary goal in life is to make me happy? I think not. People do all these wonderful things for me because of their prospect of receiving something in return, usually money. And where do I get the money I use to pay all these people? I

receive it from still other people who pay me for performing some service or providing some good for them. Reflecting about the market in this way helps us better understand the extent to which we depend upon other people. All of us need other people to supply the goods and services we have come to depend on. But we also need people who will pay us for the goods and services that we can supply, thus providing the money we require to pay those who supply our wants.

The Market System and Human Specialization

In more primitive times, people were often forced to provide for all or almost all of their wants through their own effort. And so the same individual might have to make his own clothes, grow his own food, build his own house, and so on. A market economy permits people to specialize in those things they do best. Some people are better at plumbing than they are at teaching philosophy. Some are better auto mechanics than preachers. This specialization enables most of us to do a better job with our time and effort. But this specialization also increases our dependence on others.

Supply and Demand

While it sometimes happens that the supply of some good may be too great or too small, these occasional glitches in the system are short-lived. It is worth pondering why, in a free market system, goods and services are usually available in a supply sufficient to take care of people's wants. We all have heard about people in socialist societies being forced to stand in line for hours to secure small quantities of bread or meat. We also have heard about incredible distribution blunders in socialist societies where all the garbage cans end up in one city and the tops to the cans end up in another. How do we explain the much greater efficiency and order that we find in a free market system? Did anyone plan it this way? Is there some unknown central planner over-

seeing the entire process of production and distribution whose omniscient and benevolent planning results in almost everything being available when we want it? Since this is not the case, what accounts for the incredible order we find in a free market system that lacks any centralized coordination?

The answer, of course, is that all of this order is the product of the impersonal mechanism we call the market. When things go wrong, the impersonal mechanism soon produces results that remedy the problem. The language of this last sentence should not be taken literally, as though the market itself acted. What happens in a market system is that individual people alter their choices in response to changing incentives. For example, imagine that a commodity like gasoline is suddenly in short supply. If people continued to demand gasoline in the same quantities as before the shortage, prices would rise; perhaps they would rise dramatically. As the rising price of gasoline affects the way consumers evaluated the cost, the quantity demanded would begin to slacken. But the rising price of gas would also serve as an incentive for new suppliers to enter the market. The combination of reduced quantity demanded and increased quantity supplied would serve to remedy the temporary shortage.

The Informational Function of the Market

The market supplies important information via changes in the relative prices of goods. When the price of some good rises, the market is telling buyers and sellers that the good is less readily available relative to the quantity people wanted at its old price. A decrease in price communicates information that the good is less scarce, relative to demand. Increases or decreases in price can result from a number of factors including changes in people's tastes, the discovery of new supplies, or the availability of new information. The reason people enter into market exchanges is to improve their respective situations. When rising prices raise people's perception of the cost of some

option above a certain point, those who value that option less will begin to consider other alternatives.

Producers of goods and services receive information from the market by also paying attention to profits and losses. Losses tell a business person that something is wrong and that he had better stop and re-evaluate things. Profits and losses give people incentives to act in ways that turn out to benefit society. Wise entrepreneurs will divert resources away from less profitable goods and services towards goods and services that more people want. A market system makes people accountable for their economic activities. When individuals and businesses act in ways that waste resources, they will be penalized by lower wages or profits (or perhaps by even larger losses). One of the major problems with an economic system that concentrates decisions in a group of central planners is that accountability too easily gets lost in the system. But in a decentralized market system, market prices serve to reward people who work efficiently, who plan prudently, who provide goods that others earnestly want, and who act in other economically wise ways.

Summary

I have not been discussing some specific market or collection of markets but *the market system*, the institutional framework within which individual voluntary economic exchanges can take place. This market system is spontaneous in the sense that no human invented it. It is impersonal in the sense that it is supposed not to discriminate for or against specific individuals. Like an urban traffic pattern, it ensures that countless numbers of individual drivers, all seeking their own goals, will reach their destinations in an orderly way. Without any help from any group of central planners, the

impersonal market system does a remarkable job of supplying the countless wants of countless numbers of people. It does this by supplying information about people's ever-changing wants and preferences through changes in prices. As buyers and sellers act in ways that they believe will maximize their own benefits and minimize their own costs, extraordinary consequences appear. Goods and services that people want are supplied in ways that many believe possible only when someone with complete and perfect knowledge is issuing orders. But as the collapse of socialism in the past decade reveals, societies that adopt a centralized economy inevitably fall far short of the efficiency of those that follow a decentralized market approach.

Necessary Conditions for Any Free Market

No free market can exist without several necessary conditions. They include an enforced right to own and to exchange property, an enforcement of contracts, and laws that forbid the use of force, fraud, and theft. Government has several important roles to play in all this. It must set up a stable system of rules within which exchanges can take place. Both the market system and the people who trade in the market need protection from the kinds of actions that hinder or prevent free exchange. This requires the existence of a government. But there are also necessary limits to the role of government in the economy. When government exceeds its legitimate role as the maker and enforcer of rules, it can do enormous harm to the economy and can be the source of much injustice. Readers will find articles that discuss the harm that governments do to their economy in every issue of *The Freeman*. Younger readers would profit much by beginning now to compile a list of these harmful acts. □

THE AMERICAN EDUCATIONAL ESTABLISHMENT, 1993

by John Hospers

After seventy years, Communism is in eclipse in Eastern Europe. The career of the Total State, planned and carried out by Lenin and implemented by Stalin to its maximum extent, is now history, though what will rise up from its death-throes is not yet clear. Henry Hazlitt described dramatically in his 1952 novel *Time Will Run Back* what happens when a forward-looking ruler inherits Stalin's empire. With remarkable prescience Hazlitt delineated the steps which a post-Communist government would have to take to restore a free market to Russia; hardly a word of his account would have to be changed if it were written today.¹ Meanwhile, in other parts of the world, the socialist stranglehold on various economies is being replaced, while not exactly with constitutional republics and a capitalistic economy, at least with regimes less hostile to the conditions for re-establishing economic prosperity.

But not in America. Here taxation and regulation continue apace, and government spending increases in spite of the runaway deficit. The "reality lesson" that hit Eastern

Europe has not yet penetrated America, where the clamor for increased government services helped to swing the 1992 presidential election.

The Current Intellectual Climate

One might have expected that American higher education would spearhead the move toward economic freedom. But this has not occurred. The change, as historian Paul Johnson recently observed, "was certainly not the work of intelligentsia, of philosophers, economists and political theorists, or of academics generally. The universities had little or nothing to do with it, just as they had played virtually no part in the first Industrial Revolution of the late eighteenth century. Indeed, while Marxism was being progressively abandoned by the governments which had once ardently propagated it, it continued to be upheld and taught only in that traditional home of lost causes, the university campus."²

As one who has taught numerous courses (including courses in political philosophy) on a university campus, I have had many occasions to observe the level of knowledge (or lack of it) among a succession of undergraduate students, and to take note of some

John Hospers is professor of philosophy (emeritus) at the University of Southern California, and author of numerous books, including Human Conduct, Understanding the Arts, and Introduction to Philosophical Analysis.

of the books the students are required to read in various courses. Among the gems of economic wisdom which my students (and those of other instructors with whom I have compared notes) typically bring to these classes as "general background," the following are just a few examples: (1) The reason why so many people are poor is that too many other people are rich. (Wealth is, apparently, a zero-sum game.) (2) The country would be better off if the rich were taxed more. (And if you tax the wealth-creators, what happens to the wealth and jobs and investment in future enterprises?) (3) To get more people employed, the government should put lots of people to work. (But public-sector jobs only increase everyone's tax burden; only the private sector can create more revenue and erase debt.) (4) Businessmen don't have a social conscience. (But they do create jobs—isn't that better than giving people handouts?) These bits of economic wisdom could be multiplied indefinitely.

In the humanities at least, personal wealth is viewed with disdain: it is "noble" to forgo wealth (or at least to say one will do so) in order that prosperity can be "spread out more evenly among the people." It is felt that government should have a tighter hold on the economy, so that income can be distributed more equitably. Many students, when asked whether they would prefer a society in which the distribution of wealth was 5–5–5–5–5 (assuming a society of five people) or one in which it was 5–10–100–500–1000 (as under capitalism), preferred the first, because "at least then no one would have more than anyone else." ("What a dilemma," Manuel Ayau said of this. "Poverty is bad, and everyone wants to see it abolished. Wealth is the absence of poverty. But wealth is evil. Yet only through the accumulation of wealth can investment occur, and without investment, there is only poverty."³)

Textbooks of the Welfare State

I shall describe briefly just a few of the books that are considered "hot items" in

academia, which leave little mystery as to how such ideas are perpetuated. Most of these books are not written for the general reader, and remain quite unknown outside colleges and universities. They are not sold much outside university bookstores, and the public in general is unaware that these publications exist, and of what impact they may have on those who are assigned to read them.

According to Professor Nicholas Rescher, in two books, *Welfare* and *Distributive Justice*, the "problem of production" has been solved; technology will produce all the goods and services we need. The only remaining problem, he says, is that of distribution. The author then devotes his energies to determining how our "national resources" can be equitably distributed among the population.⁴

What should be the criteria for making this distribution? The first plausible criterion, he believes, is that of *equality*—that every person (or family?) should receive an equal income, just as everyone should be equally protected against crime. Satisfying this criterion would require the government at regular intervals to take from those who have more in order to give to those who have less, thus making poverty obsolete. Another plausible criterion is that of *effort*; people who work longer or harder should receive more than those who do less or do not work at all. There is, of course, a conflict between these two criteria in practice, and some accommodation between them must be effected. Still another suggested criterion is "*conduciveness to the common good*": those who engage in activities helpful to others (such as social work) should be encouraged in their efforts by receiving more than those (such as manufacturers) who are not engaged in such socially constructive activity. And hovering over them all, there is the criterion of *need*: surely those who need more should receive more, and it should come from those who do not need it. He follows Anatole France's dictum that "no one should have cake until everyone has bread."

I will spare the reader the details of the

analysis by which these various apparent conflicts are thrashed out. Common to them all is the assumption that the government should control the economy in the interests of "social justice." Not everyone's income need be equal, but no one should lack economic goods, and only the government is in a position to enforce the kind of distribution required if everyone is to escape poverty.

The most influential book in political philosophy of the past half century is John Rawls' *A Theory of Justice*.⁵ Rawls proposes a semi-socialistic scheme in which everyone's "basic needs" are assured by the government. There can be some inequality of condition, but this inequality is subject to strict limitations: "All social primary goods—liberty and opportunity, income and wealth, and the bases of self-respect—are to be distributed equally unless an unequal distribution of any or all of these goods is to the advantage of the least favored."⁶ In deciding on any social policy, "we are to adopt the alternative the worst outcome of which is superior to the worst outcomes of the others." The utilitarian rule "the greatest happiness for the greatest number" is transformed into "the greatest good for the least advantaged persons in society." If the least advantaged persons in society are not benefited by a given policy, it should not be adopted, no matter how many other persons it may benefit. "Consider the worst that can happen under any proposed course of action, and decide in the light of that."

Rawls does not provide examples, and we are left to wonder exactly how this would work out in practice. Almost any innovation that has lightened mankind's drudgery and heightened his standard of living has surely made some people (however few) worse off than before. Surely the makers of buggies and covered wagons were "disadvantaged" by the invention of the automobile, just as the makers of sailing ships were made worse off by the invention of steamships a century earlier. If one were to prohibit any innovation that made a person or group worse off than they would have been without it, it would be difficult to find an example that would not be on the prohibited list.

A recent book in the same area is James Sterba's *How to Make People Just*,⁷ which has won enough academic publicity to be the subject of an entire issue of the journal *Social Philosophy*.⁸ Sterba divides society into two groups, "the rich" and "the poor"; sometimes he refers to the first group as "the fortunate" and the second as "the disadvantaged." The primary task of government is to make the second group less disadvantaged by making the first group less fortunate. The members of the first group are regularly referred to as "the exploiters." "Capitalist exploitation," says Sterba (p. 57), "differs from criminal activity only in that it is supported by conventional standards." And if the capitalist exploiter refuses to turn over a portion of his income to these "disadvantaged," then the disadvantaged have the right to take it away from them by force. "What is at stake is the liberty of the poor not to be interfered with when doing what is necessary to satisfy their basic needs from the surplus possessions of the rich" (p. 86).

The entire discussion proceeds from the point of view of the consumers of wealth (what are their needs and how can these be satisfied?) and never the producers of it. Indeed, capitalists are not recognized at all as the producers of wealth or providers of jobs or creators of capital to fulfill the desires of consumers. The producers of wealth are treated merely as means to the satisfaction of the needs of the non-producers. Any time or effort or planning they may have put into the process of production is never mentioned—they are milch-cows to be valued only for the goods and services that can be extracted from them. The fact that when the extraction has become very great, production falters or ceases, is never considered even as a possibility, and no historical lessons on this subject are ever cited. It is apparently assumed without question that the process of production will just go on and on, regardless of whether the producers are ever permitted any reward for their efforts. Nor is there any sense that under capitalism the standard of living has grown enormously, so much that most things

that today's Americans take for granted would have been undreamed of in George Washington's day:

George Washington never heard of calories or vitamins; he lived on meats and starches through every winter; he never saw a glass of orange juice; his diet was so deficient that he lost his hair and teeth at an early age. His clothes were uncomfortable and unhygienic. He traveled on foot, on horseback, or in a springless carriage. His house had no toilet or bathtub, no furnace or heating stove, no light but candles. What was his standard of living? It was so high that forty years ago not one American in ten thousand aspired to it.⁹

Poverty—A Decree of Fate?

A question that leaps out (at one reader at least) of every page of Sterba's book is a question he never asks: How did they ("the rich," "the poor," "the advantaged," "the disadvantaged") get that way? Is their condition the result of an inexorable decree of fate, or could they possibly have done something, or failed to do something, which placed them in their present position—and if so doesn't this matter?

In the choices we make from day to day as individuals, we try to distinguish various degrees of worthiness among the candidates for our assistance. If a person we know is suddenly unemployed through no fault of her own, or if a person is ill or so handicapped as to be unable to work, then, if we are able, we give help to the person. But we do not always feel obliged to do so even if we are able: if we have warned a person against a course of action, and he embarks on it anyway and suffers financial hardship as a result, we do not feel as moved to assist him as we would if he was a victim of (for example) a paralytic stroke. Or if he is able-bodied but is looking only for that special highly paid job that alone will reward his great talents, and he refuses to accept any other, or if he refuses even temporarily to do labor that he finds "demeaning," we may be less than sympathetic to him in his present plight. If a person can keep a job for

only a day or two because, having spent years taking mind-altering drugs so that now most of his brain is gone, and he now lacks the span of attention required to understand even the simplest directions, we may be less inspired to help him than if his past behavior had nothing to do with his present condition. Rough classifications such as "the poor" and "the unemployed," which pervade virtually all of the current crop of textbooks, are not specific enough: they do not distinguish among the causal factors that led to a person's being assigned this classification.

Describe the specific case for me in detail, and only then may I know what to say; if I know only that he is poor, I do not yet know what I need to know to judge the case, or even to judge whether the fatalistic term "disadvantaged" applies to him. One first has to dig a bit to get the facts. "They *make* me unemployed," he may say; "if they'd lend me the money to buy a truck I'd make the payments every month, but they won't do it" (implication: it's their fault). Perhaps what he says is true; yet it is possible that there are good reasons why he is denied credit—perhaps he quit previous jobs on an impulse ("I want to be free"); perhaps he would have a few extra drinks at the bar instead of making that required repair on his vehicle, as a result of which it would not function the next day when he needed it most for an important job.

The variations are endless. It may take some time for the uninitiated to discern the pattern in the lives of many people which keeps them in the category "the less fortunate." When one sees this, one cannot simply blame the economy, or the bankers, or the hard-hearted employers; one must pinpoint the person himself, and reflect that these patterns of action which lead always to unemployment arise from within himself (perhaps it's easier to complain and collect welfare than to get up for work early each morning?). If one buys his story and helps him, and he is in the same situation again in a few days or weeks, may there not be a lesson in this? Sterba's proposal, that we should all be required by law to help him (and all those like him), as long as his income

falls below a certain level, will only perpetuate his inclination to dependency. Simply placing people into two classes—those who should receive, and those who should be made to give to those who receive—fails to consider these countless factors that are essential to making considered judgments on a case-by-case basis.

In our voluntary dealings with others, we feel free to exercise our individual judgment as to whether a certain person, all things considered, should be found worthy of our help. Sterba, like predecessors, rejects individual help voluntarily provided, in favor of help to all persons in a prescribed class ("the poor") provided through the coercive machinery of the law. We are no longer permitted to exercise our individual judgment about the cases before us. We are required to help sustain all those in a given category, and not permitted to consider what are the conditions which brought them into that category. But the thrust of all this is the very opposite of what it should be; the first question to ask, I suggest, is always a specific one: Does this person, in this circumstance (say a man who is able-bodied but rather disinclined to labor) deserve to be supported at public expense? Would *you* support him in these circumstances? If not, what is your justification for passing a law that requires *everyone* to support him?

One might summarize the attitude of the proponents of such a law: "The cause I believe in is so important that I will gladly force you to pay taxes to support it." One may judge for oneself how noble this liberal rallying cry really is.

Concluding Reflections

There are many other reflections that would be too obvious to mention to readers of this magazine, but deserve mention here because they remain virtually unmentioned in the current crop of textbooks. (1) Once welfare programs become generally available, the class of "the poor" soon becomes much larger than before. When something is available without cost, people outdo one another to receive it. (2) Care of the poor can

come only from the surplus of production; it is on this surplus that all charity depends. One would think, then, that every effort would be made to ensure that the source of this bounty remain secure. But such concern is seldom hinted at. It is not seen that the final outcome of income-equalization is "splendidly equalized destitution" for everyone, and that this is the inevitable consequence of plundering those who have produced the world's goods in order to give them to those who have not. (3) Nor is there any recognition, in speaking of "society's goods" (with a view to how these can be distributed) that "society" is only a collection of individuals—that all production is the result of the labor of individuals. The collectivistic assumption ("we all did it together") is simply false.

It is difficult to escape the conclusion that if followed through consistently, the world that Sterba and the others recommend would be a depressing one to live in. It would be a world characterized by original sin—social, not theological; a world in which every new individual born adds to the burden each of us must bear. I am not responsible for that new person being born (I may even have championed population control), yet I am obliged to help take care of that person's needs, and do without many of the good things life has to offer in order to provide for each of these person's "basic needs" (however "basic" may be defined):

Do you care to imagine what it would be like, if you had to live and to work, when you're tied to all the disasters and all the malingering of the globe? To work—and whenever any man failed anywhere, it's you who would have to make up for it. To work—with no chance to rise, with your meals and your clothes and your home and your pleasure depending on any swindle, any famine, any pestilence anywhere on earth. To work—with no chance for an extra ration, till the Cambodians have been fed and the Patagonians have been sent through college. To work on a blank check held by every creature born, by men whom you'll never see, whose needs

you'll never know, whose ability or laziness or sloppiness or fraud you have no way to learn and no right to question.¹⁰

Sterba begins with the noble thought that no one should want, that everyone should be economically secure—and concludes that economic security is everyone's right. The rich, apparently, have economic security already, and Sterba's task is to make sure that it is also provided for the poor. But surely the truth is, that no one in the world has a very high degree of economic security. In the attempt to provide it for everyone, there is great risk that those on whom everyone depends for goods and service will lose it, with catastrophic results for everyone. In fact no one's economic future is very secure, as Rose Wilder Lane brings out dramatically:

Anyone who says that economic security is a human right, has been too much babied. While he babbles, other men are risking and losing their lives to protect him. They are fighting the sea, fighting the land, fighting diseases and insects and weather and space and time, for him, while he chatters that all men have a right to security and that the government must give it to them. Let the fighting men stop fighting this inhuman earth for one hour, and he will learn how much security there is.

Let him get out on the front lines. Let him bring one slow freight train through a snowstorm in the Rockies. Let him drive one rivet to hold his apartment roof over his head. Let him keep his own electric light burning through one quiet cozy winter evening when the mist is freezing to the wires. Let him make, from seed to table, just one slice of bread, and we will hear no more from him about the human right to security.

No man's security is greater than his own self-reliance. If every man and woman did not stand up to the job of living, did not take risk and danger and exhaustion and go on fighting for one thin hope of victory in the certainty of death,

there would not be a human being alive today.¹¹

The tragedy of today's welfare-society planners is that they remain quite unaware of the kind of society to which, if their plans were fulfilled, they would be condemning the very groups of individuals whom they take such pains to protect.

When one reads with wearisome repetitiveness such recommendations for a socialist or semi-socialist society, one turns with relief to other sources, largely unmentioned in the halls of Academe, in which sanity is restored. Students have never read Bastiat, or even been informed that such a man existed; yet one sentence of the rigorously elegant prose of Bastiat seems worth thousands of words spewed forth by those who have too long ignored him. He expressed the fundamental principle with incomparable clarity:

Man struggles against pain and suffering. However, he is condemned by nature to suffering and to privation if he does not take upon himself the effort of work. Hence he has only the choice between two evils . . .

Up to now, however, no remedy has been found for it, except for one man to avail himself of the work of others . . . so that all work is for the one and all enjoyment for the other. Hence [we have] slavery and robbery.

[Today] the oppressor no longer directly compels the oppressed through his own strength. There is still a tyrant and a victim, but now the state, i.e. the law itself, is placed as a mediator between the two. What could be better for the purpose of stifling our doubts and vanquishing all resistance? We turn to the state and say to it: I find that between my enjoyment and my work there exists no relation that satisfies me. In order to bring about the desired balance, I would like to take away a little from others.

However, that would be dangerous were I to do it myself. Can you, state, facilitate matters for me? Can you not assign me to a favorable position, or

assign a more unfavorable one to my competitor? Can you not grant me a special "protection" and, not without plausible reason, lend me capital which you have taken from its possessors? Or, can you not educate my children at public expense? or guarantee me a carefree life from age 50 onwards?

In this case the law would be acting for me, and I would have all the advantages of exploitation without its risks and its onus.¹² □

1. Henry Hazlitt, *Time Will Run Back*, Appleton-Century-Crofts, 1952. Reprinted by Arlington House. Also published as *The Rediscovery of Capitalism*.

2. Paul Johnson, *Modern Times: From the Twenties to the Nineties*, revised edition, Harper, 1991, p. 698.

3. Manuel Ayau, president of the Universidad Francisco Marroquín, Guatemala City, in a university pamphlet entitled "Yes, We Have No Bananas."

4. Nicholas Rescher, *Distributive Justice*, Bobbs-Merrill, 1966, and *Welfare*, University of Pittsburgh Press, 1969.

5. John Rawls, *A Theory of Justice*, Harvard University Press, 1971.

6. Rawls, *op. cit.*, p. 62. There are many other aspects of Rawls' view. I discussed some of them in my review of Rawls' book in *The Freeman*, December 1973 issue (pp. 751-758).

7. James Sterba, *How to Make People Just*, Rowman & Littlefield, 1988.

8. *Social Philosophy*, fall 1991 issue.

9. Rose Wilder Lane, *The Discovery of Freedom*, Arno Press and New York Times, 1943, p. 25.

10. Ayn Rand, *Atlas Shrugged*, Random House, 1957, pp. 669-670.

11. Rose Wilder Lane, *op. cit.*, p. 60.

12. Frederic Bastiat, "L'État," in *Journal des Débats*, September 15, 1848.

TOWARD A FREE MARKET IN HIGHER EDUCATION

by William G. Stuart

My state runs a special welfare program. Everyone who wants to participate in the system is eligible to apply, and most applicants who agree to abide by the program rules are accepted. Family income is not considered in determining eligibility. In fact, those with higher family incomes are much more likely to apply for and be accepted into this program than those with lower family incomes. Are you ready to move to Massachusetts to participate in this program? You do not have to move. Your state offers the same program—and you may have received benefits already.

William G. Stuart, a sales executive living in Cummaquid, Mass., has attended both public and private institutions of higher education.

This program is state-financed, state-delivered higher education. Few people view public higher education as a welfare program. In its design, however, it is like any other "collectivist" program in which people participate involuntarily: individual benefits in no way reflect costs; subsidized prices distort the decision-making process; and collective public political consensus is substituted for the private judgments of individuals.

At first, it seems outrageous to criticize something as imbedded in the fabric of American life as higher education. After all, land-grant universities were among the first institutions established by the governments of most post-colonial states. People under-

stood that everyone usually benefits when more people gain more knowledge. A more educated society, the argument goes, translates into better civic decisions, better election results, and a more highly skilled work force—all factors that improve quality of life and positively affect the lives of every resident of a particular state. Higher education, according to this line of thinking, benefits everyone, and society must find a way to support increased levels of higher education and design a mechanism whereby those who do not pursue higher education but receive the “spillover” benefits are assessed part of the costs of this windfall.

The analysis must not stop there, however. The state higher education system is a collectivist system. Government extracts money from all citizens according to specific formulas—such as income and sales taxes—completely unrelated to the benefits that they derive personally from a specific program such as higher education. Government then distributes benefits—in this case, subsidized education—to specific members of the population, regardless of their level of usage. This system creates inefficiencies that distort economic calculations and make society poorer, not richer.

Public vs. Private Higher Education

In a free education market, “consumers”—students and their families—make decisions based on the costs and benefits of each option. Most likely, they project the expected future income stream of the student both with and without higher education to determine whether that education is a sound investment. Inputs into this calculation may include the student’s native intelligence, her preferred course of study, her determination and the projected job prospects in her field. (Other criteria, such as achieving a certain status or finding a suitable mate, may be included in this calculation; these factors are benefits that fit into a calculation of the economic value of an education.) Students and their families then evaluate the characteristics of various insti-

tutions to project which one will provide the greatest ratio of benefits to costs.

In the state-financed education market, the calculations are altered to produce vastly different results as inefficiencies are transferred from students directly to taxpayers. First, the family of a student is paying only a fraction of the cost of public higher education. This subsidy skews the analysis: Educating a marginal student may result in a positive projected economic gain with subsidized tuition, whereas the projected return on his education is negative when his family bears the entire cost. Second, courses of study that are less valued by free consumers and therefore provide a lower projected future income stream—the humanities or social sciences, on average, do not generate the same lifetime economic returns as do natural sciences and engineering—become more attractive because the cost of achieving that lower level of future income is itself reduced.

In a free education market, colleges compete aggressively for students. As with any other business serving consumers, they attempt to design a product—a combination of level of academic difficulty, tuition level, quality of student life, extracurricular activities, off-campus study programs, curricular innovation, financial aid, placement record at graduate schools and businesses, and other academic and social factors—that will appeal most to the consumers whom they are trying to attract. Colleges respond constantly to new academic, professional, and social trends in order to redefine their educational product to attract the students whom they want to enroll. The future success of these institutions largely depends on their ability to design an offering that meets the preferences of their target audience.

Public institutions of higher education distort this process. Because these schools are supported by taxpayers and therefore provide subsidized tuition, public universities have a competitive advantage relative to private colleges. Private colleges can design an educational product superior to a public institution in every way, including real costs, but because of subsidized tuition at

public universities, many students choose the lower-priced option when the direct benefit-to-cost ratio is lower to them personally. The effect is to create a two-tier system of education, in which private colleges compete with other private colleges and public universities compete with other public universities. The benefits of pure competition to students as consumers are diluted by creating two separate markets.

Further, because public universities are operated by government, they are controlled ultimately by politics. Thus, students and campus administrators are robbed of the market mechanisms that create the most efficient allocation of resources and that allow private institutions to craft a product that meets student needs best. Decisions about where to locate a campus, which campuses in the system should offer which courses of study and what standards to impose at each campus are made by politicians rather than by students and their families. Changes in the product that an institution offers students ultimately are shaped by state legislators and state department of education bureaucrats rather than by the calculations of individual consumers. Administrators at these campuses are not able directly to control much of the product that they offer to students.

The system of financing public higher education places a further competitive disadvantage on private colleges. A family that wants to send a child to a private college must pay taxes to subsidize the educational costs of other students in public higher education and then must pay the entire cost of educating him at a private college. By contrast, the family of a public university student pays a subsidized tuition and taxes to support the subsidy—a total far less than the true cost of educating him.

A Poor Investment for Taxpayers

The public higher education system is not a good investment for taxpayers. The system often is defended on the basis that people who acquire more education will

earn more and therefore pay more in taxes during the course of their working lives, thus “paying back” the initial investment that taxpayers made in them. This argument misses the mark: The benefits and costs of higher education are in no way related. Because benefits are not tied to costs, and because there is no contractual obligation, any relation between direct taxpayer support of the system and indirect taxpayer benefit is purely coincidental.

Why? First, there is no guarantee that a student will work in the state in which he receives his education. It is quite likely in our mobile society that he never will “repay” as much in future taxes to that state as he took in subsidized tuition. Second, the taxpayers whom he supposedly will “repay” are not, in many cases, the same taxpayers whose money financed his education, inasmuch as these people move as well. Third, this argument treats all education as equal, when clearly it is not. A doctor or an engineer, for example, will return far more value, as measured by the income that free consumers choose to award producers, to society on average than will someone trained in Asian studies or art history. The public higher education system, however, does not distinguish between the returns of each academic field and thus does not capture the disparate economic impact of these different courses of study. Fourth, some students attend public institutions on a full-time or part-time basis for other than academic reasons—to develop an active social life, to find enrichment completely unrelated to their career interests, for example—and thus will not return to the state treasury any meaningful economic benefits from the public money spent to subsidize their educations.

The argument that society should subsidize higher education because everyone in society benefits indirectly from a more educated populace is not valid, either. Society benefits whenever someone develops a more efficient automobile or a more powerful personal computer, but the inventor or financial backer of the innovation benefits directly, and to a greater extent. Similarly,

people who are more educated will, on average, achieve a higher level of income, a higher standard of living, and increased status for themselves and their families. There is no reason why the direct beneficiaries should not bear the entire burden of the investment required for them to achieve this direct, personal benefit. That everyone benefits indirectly from the success of those who are highly educated is no reason to require everyone to subsidize these specific individuals.

Those who defend public higher education make one final argument: that the subsidized tuition opens educational opportunities to many students who otherwise could not afford to better their stations in life. This argument is deceptive and misleading. First, public institutions generally offer less financial assistance than private schools. While a lower-income student often can attend a private college at little out-of-pocket expense, thanks to healthy financial aid endowments and budget commitments that result in a plethora of grants, scholarships, loans, and campus jobs, that same student may well find that the reduced level of aid at a public university actually will raise the out-of-pocket cost of the public institution above that of the private institution. Second, again, the subsidized public higher education system hides the true cost of the education. It forces taxpayers to subsidize the educations of all students, including the individual who cannot "afford" education because he cannot find an investor—relative, employer, or financial institution—who believes the benefit from that student's education never will equal the costs of educating him. Third, this argument ignores the reality that a family with \$200,000 income pays the same tuition as a family with a \$30,000 income—hardly a fair deal for taxpayers or low-income students.

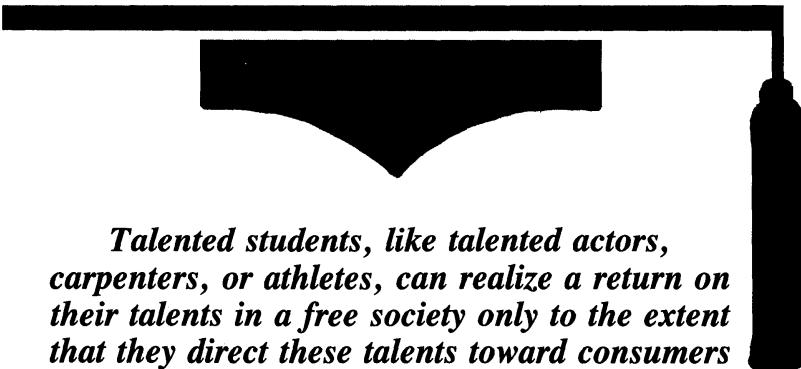
What Is the Alternative?

Fortunately, there is an alternative to the current system that will improve the system by liberating consumers—students, their families, and their benefactors—and re-

move non-consumers—politicians and tax-payers—from shaping and financing higher education. The alternative is to abolish government regulation of higher education and sell public universities to private operators, who then will organize the institutions to compete effectively with private colleges for students. These operators probably will be similar to other non-profit organizations. Instead of focusing on the needs of wildlife or disabled people or victims of domestic violence or refugees, they will direct their efforts toward providing students with a portfolio of skills. As with existing private colleges, some will be affiliated with religious, service, or organizations and foundations, while others will be independent and self-governing. Some programs, particularly at the graduate and professional level, may be affiliated with, or owned by, particular companies or business associations to train students for specific careers. In all cases, the owners and operators will offer a product that prospective students and their families will be free to accept or reject—without being forced to support the product financially.

This new system will benefit nearly every state resident. Citizens who do not wish to purchase higher education will be relieved of the tax burden imposed to finance others' consumption of this product. Those parents who are supporting children in private colleges and universities no longer will have to be responsible for their children's education and a portion of the tuition of the children, parents, grandparents, aunts, and cousins of their neighbors. Education administrators and visionaries with market-based, rather than politically based, ideas about how to craft a higher education product will benefit by realizing new opportunities to respond to consumers.

As with any change, some people will be hurt by this new system. Politicians accustomed to wielding budgetary and regulatory power over the state university system will lose their ability to exert influence as consumers assume the decision-making authority. Perennial students who enroll in one or two classes to delay their entry into the



Talented students, like talented actors, carpenters, or athletes, can realize a return on their talents in a free society only to the extent that they direct these talents toward consumers who are willing to pay for them voluntarily.

working world will see their subsidized existence evaporate. Marginal enrollees who attend class for "enrichment" or "to meet people" or to "broaden their horizons" will find that taxpayers no longer will subsidize their hobbies. Administrators and faculty members who have built careers around responding to political influences will have to adjust their thinking as the market of free education consumers sets the rules and expectations in the new education market.

Another group of people—those bright students from families of limited means to whom a taxpayer subsidized education appears at first glance to be the only means of improving their stations in life—may appear to be harmed by the free market. In reality, these students will benefit from the new system in several important respects. First, with fewer marginal students pursuing higher education, the value of a degree will rise, thus increasing both entry employment opportunities and lifetime earnings projections of graduates, thereby justifying the higher levels of investment by the students or other investors. Second, these students will be able to keep more of their future income because succeeding generations of residents who want to purchase higher education will not be able to make an economic claim against their earnings. Third, entrepreneurs will create new opportunities for students to finance their educations. Colleges will become more integrated with

work in cooperative education programs. Businesses will invest in students' educations in exchange for future employment service. Lenders will design loan programs with repayment based on lifetime earnings—thus creating a partnership between student and lender. Colleges will reduce costs by specializing in specific courses of study, limiting non-academic offerings, developing new modes of presenting information and redefining the notion of a campus. In short, entrepreneurs who see a group of attractive consumers—smart students—will develop programs to deliver an education product on terms that these students can justify in investment terms.

The final argument for this new (or, more properly, this return to the American) approach to higher education is the justification for personal freedom in every aspect of life. It is important to understand the precept of a free society—that no level of talent, achievement or need entitles a person to make an economic claim against an unwilling payer. Talented students, like talented actors, carpenters, or athletes, can realize a return on their talents in a free society only to the extent that they can direct these talents toward consumers who are willing to pay for them voluntarily.

An understanding and acceptance of this precept is the most important and valuable lesson that anyone in a free society can learn. What better way to learn that lesson than in the pursuit of higher education. □

J. GRESHAM MACHEN: A FORGOTTEN LIBERTARIAN

by Daniel F. Walker

“**E**verywhere there rises before our eyes the spectre of a society where security, if it is attained at all, will be attained at the expense of freedom, where the security that is attained will be the security of fed beasts in a stable, and where all the high aspirations of humanity will have been crushed by an all-powerful state.”¹

Meet J. Gresham Machen, a leading conservative Christian theologian who led the battle for historic Christianity early in this century.

Machen is often overlooked today, except by those familiar with the world of Reformed Protestant Theology. Such books of his as *The Origins of Paul's Religion* and *The Virgin Birth of Christ* (“monuments to careful historical research and argumentation,” according to historian George Marsden) are periodically reprinted, as is his classic *Christianity and Liberalism*, a defense of historic Christianity against theological unbelief.

Following undergraduate studies at the Johns Hopkins University, Machen received theological training at Princeton Seminary (in his days a citadel of conservative Calvinism) and post-graduate studies in Germany. A career in Princeton academia

and years of doctrinal battling in the Presbyterian Church followed. Years passed, theological stands changed at Princeton; eventually the leftward drift compelled Machen to leave both Princeton and the Presbyterian Church to help found Westminster Theological Seminary and the Orthodox Presbyterian denomination.

Historian George Marsden refers to Machen’s political views as “radically libertarian. He opposed almost any extension of state power and took stands on a variety of issues. Like most libertarians, his stances violated usual categories of liberal or conservative.”²

Following the impulses of his family heritage, which was rooted in the South, Machen tended to place state sovereignty before that of the federal government; in letters he indicated a belief that the Southern states properly exercised their constitutional authority to attempt secession. Most importantly, Machen favored individual rights and families over governmental powers.

Machen detested governmental control of individuals; as he stated in the introduction of *Christianity and Liberalism*, “Personality can only be developed in the realm of individual choice. And that realm, in the modern state, is being slowly but steadily eradicated.”³

Machen minced no words. Of the “dreary

Daniel F. Walker is an attorney in Tallahassee, Florida.

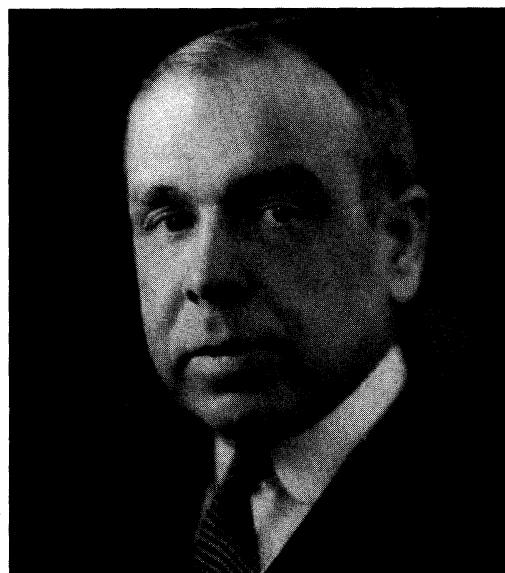
regularity" of one of his favorite nature preserves after the federal government made it a national park, Machen wrote, "I almost feel as though I were in some kind of penal institution. I feel somewhat as I do when I am in Los Angeles or any of the over-regulated cities of the West, where pedestrians meekly wait around on the street corners for non-existent traffic and cross the streets only at the sound of the prison gong."⁴

Long before the federal Department of Education was finally created in the 1970s, efforts had been made to establish it in the 1920s. Machen vigorously opposed those efforts in published letters, essays in national magazines, speaking engagements, and in an appearance before a joint Congressional committee. There, Machen warned against government control over young people: "If you give the bureaucrats the children, you might as well give them everything else as well."⁵

A national department of education was not the only government intrusion into education which drew Machen's opposition. The "Lusk Laws" of New York which would have compelled private schools to obtain state licenses, and Nebraska's Language Law (ruled unconstitutional by the U.S. Supreme Court) which prohibited teaching a foreign language to any pre-9th grade student, were both cited by Machen as examples of improper but not unexpected government interference in the learning process. While not opposing locally operated public schools per se, Machen set forth his position regarding school and state in no uncertain terms:

Place the lives of children in their formative years, despite the convictions of their parents, under the intimate control of experts appointed by the state, force them to attend schools where the higher aspirations of humanity are crushed out, and where the mind is filled with the materialism of the day, and it is difficult to see how even the remnants of liberty can subsist.⁶

In an era of considerable federal and state control over schooling, with powerful teach-



J. Gresham Machen

WESTMINSTER THEOLOGICAL SEMINARY

ers' unions and their fascination with method rather than substance, Machen's words ring just as true today as when he wrote them over 60 years ago.

The trend of declining personal liberty and a confused public understanding of "equality" deeply worried Machen. He was "dead opposed" to the concept of equal opportunity; he described himself as "old-fashioned in my love of freedom. I am opposed to the attack on freedom in whatever form it may come."⁷ Theological conservatism opposed statism in Machen's political views. In an age when many favored Prohibition, Machen opposed it—an act which did not help his career. During World War I, he opposed the military draft, describing it as one of the things he opposed more "than anything else in the world," not only because of "the brutal interference of the state in individual and family life which that entails" but also because "[o]nce established, a policy of conscription would for various reasons be almost incapable of being abandoned."⁸ When the Secretary of Labor in 1925 advocated the "enrollment" of aliens, Machen opposed it on the basis that it would ultimately lead to citizens having to maintain "proof" of citizenship akin to many Europeans having to "show their papers" issued by the state. Little did

he knew how he anticipated the infamous Social Security card and number.

In the 1920s considerable support grew for a Child Labor Amendment, essentially allowing Congress to ban anyone under age 18 from employment. In a letter published in the *New Republic*, Machen wrote:

The approval of the amendment would indeed be economically a very great benefit to one class in the population—namely to the vast army of federal agents and inspectors which any exercise of the powers conferred by the amendment would require. The federal agents would be economically benefited; but American liberty and the sanctity of the American home would be gone.⁹

Machen was not one to be fooled by labels falsely worn (he attacked theological liberals who called themselves “Christians” while attacking the Bible) nor by complacency; perhaps because he saw theological liberalism infect mainline Protestant denominations despite its multitude of profound differences with the historic Christian faith, Machen feared the expansion of government power under a name other than that of socialism. As he wrote in *Christianity and Liberalism*:

. . . the same tendency exhibits itself today even in those communities where the name of socialism is most abhorred. When once the majority has determined that a certain regime is beneficial, that regime without further hesitation is forced ruthlessly upon the individual man. It never seems to occur to modern legislatures that although “welfare” is good, forced welfare may be bad. . . . in the interests of physical well-being the great principles of liberty are being thrown ruthlessly to the winds.¹⁰

The parallel rise of theological liberalism and the growth of governmental power in this century in America, it could be argued, was hardly coincidental. Historic Christianity was abandoned by theological liberalism,

and the “Social Gospel” movement—having given up on the Gospel—wished to impose its own vision of the City of God here on earth. Biblical authority was weakened; a governmental authority filled the void.

Looking back, it is no surprise that Machen—whose primary battles were in the theological arena—was compelled to wage secondary battles against ever-increasing government power.

Machen’s untimely death at age 55 occasioned words of respect not only from friends but also from opponents noted for their dismissal of religion. Of Machen, the acerbic H. L. Mencken said, “Though I could not yield to his reasoning I could at least admire, and did greatly admire, his remarkable clarity and cogency as an apologist, allowing him his primary assumptions.”¹¹

Writer Pearl Buck’s assessment of Machen said much. “The man was admirable. He never gave in one inch to anyone. He never bowed his head. It was not in him to trim or compromise, to accept any peace that was less than triumph. He was a glorious enemy because he was completely open and direct in his angers and hatreds. He stood for something and everyone knew what it was.”¹²

Machen is one of many prominent American defenders of political liberty and economic freedom who have been largely forgotten by a people intent on abandoning its heritage of freedom. □

1. J. Gresham Machen, *Christian Faith in the Modern World* (Grand Rapids: Wm. B. Eerdmans, 1936), p. 11.

2. George Marsden, “Understanding J. Gresham Machen,” *The Princeton Seminary Bulletin* XI: 1 (1990), p. 54.

3. Machen, *Christianity and Liberalism*, p. 11.

4. John W. Robbins, *Education, Christianity, and the State: Essays by J. Gresham Machen* (Jefferson, Md.: Trinity Foundation, 1987), p. 128.

5. Henry W. Coray, *J. Gresham Machen: A Silhouette* (Grand Rapids: Kregel Publications, 1981), p. 50.

6. Machen, *Christianity and Liberalism*, pp. 13–14.

7. Coray, p. 49, quoting from a personal sketch of Machen in *Contemporary American Theology* (New York: Arne, 1933), p. 145.

8. Ned B. Stonehouse, *J. Gresham Machen: A Biographical Memoir* (Grand Rapids: Wm. B. Eerdmans, 1954), p. 247.

9. J. Gresham Machen, “A Communication: Child Labor and Liberty,” *The New Republic* (December 31, 1924), p. 145.

10. Machen, *Christianity and Liberalism*, pp. 10–11.

11. Coray, p. 126.

12. *Ibid.*, pp. 126–127.

MACRO MISTAKES

by Roger M. Clites

You and I and everyone else live, produce, and consume as individuals, but macro-analysts—economists, statisticians, politicians, and others—insist on looking at us in terms of groups or averages. They then reach conclusions, develop policies, and give advice based on statistics that may have nothing to do with the situation of any individual. No family has 2.3 children. Perhaps no one in the entire country earns the average income. Too often those who are unaware of the nature of macro-economics are led to make decisions which adversely affect their lives. In the case of politicians they may adversely affect millions of people's lives, even entire national populations.

The following is a personal example of how aggregate statistics may have no meaning in an individual case. Twenty years ago a college where I was teaching went bankrupt. I was one of the fortunate few who was able to dispose of a home in the depressed housing market in the small town where the school was located. A friend in another state suggested that I might base myself at his home while I looked there for another teaching position. Another person advised me not to move out of state. She noted that the unemployment rate in the state where the bankrupt college was located was the lowest in the nation at that time, 2.8 percent. The rate in the state where my friend lived was about twice that high.

But my goal was not to apply for all the job

openings in the state. I needed only one job. As things turned out I located my next teaching assignment in the state with the highest unemployment rate, a double-digit figure.

The averages, the aggregate, the "big picture" were not important to me. I was looking for just one job. Had I stayed at my former location I might not have learned of it.

Just as an individual may be led by macro figures to make bad decisions, or to give bad advice, so political leaders may be caused to overlook individual situations by concentrating on averages or aggregates. Let's take another case which involves unemployment data.

Ignoring the question whether there should be government unemployment benefits, let's examine the process that is generally used to extend benefits when there is an economic downturn that continues for a considerable period of time. Usually the politicians decide that a person may collect additional benefits if the unemployment rate of his state is above a certain arbitrary percentage figure. But the state unemployment rate is of no importance to the person who is out of a job. The fact that few of his neighbors are unemployed does not lessen his plight. He is just as bad off as the person in a state with a high unemployment rate who is also out of work.

Over and over we see reliance on averages as the basis of decisions that may affect individuals very differently. In fact, that is the only way government can carry out its

Roger Clites teaches at Tusculum College in Tennessee.

economic policies. And, while we may not be aware of it, individuals who rely on the advice from macro-type advisers may make decisions that turn out not to be in their own best interests. Those decisions may, for example, involve whether to accelerate or delay a purchase, whether to hold or change an inventory level, whether to change employment, or any one of many other decisions that we are often led to make on the basis of macro-data that may have little or

no relevance to our individual situation or, worse yet, may run counter to what we personally will encounter.

Economic activity is not a group experience or an average experience. Only individuals think, and only individuals act. A macro-economist reminds one of the story of the man who was standing with one bare foot on a block of ice and the other in a bucket of scalding water. On average, his feet were 98.6° comfortable. □

LITTLE LESSONS IN LARCENY

by Russell Madden

At a family gathering last Christmas, I had the opportunity to observe an event all-too-familiar to anyone who has spent time around small children. My three-year-old nephew was playing with a new toy he had received. The truck came with a number of smaller pieces: a driver, a tiger, and various accessories. Smiling, he carried his treasure into the living room where other family members sat. Immediately his two-year-old cousin came over and seized the tiger from the back of the truck.

Naturally, my nephew tried to take back the purloined toy. Just as naturally, his cousin twisted away and clutched his prize more tightly to his chest. Plaintively, my nephew looked up with a pained expression on his face and pointed to the small plastic tiger. Sternly two or three of the adults in the

room—including his mother—told him in no uncertain terms that, “You have to share.”

I cringed. While I had in the past heard such admonitions from adults to children not even their own, this time I felt even more uncomfortable with such a pronouncement. The brief drama I had just witnessed seemed to exemplify one of the basic problems with our society. This microcosmic encounter and countless others like it have helped establish the underpinnings for a moral assault on our free society, the sanctity of private property, and individual responsibility.

There is, of course, nothing wrong with sharing. But there is something wrong with stealing, and what happened in that living room was stealing, not sharing.

The messages learned in childhood are often the most enduring. They are unthinkingly adopted before we have the intellectual ability to analyze them. Buried among

Mr. Madden teaches communication at Mount Mercy College, Cedar Rapids, Iowa.

forgotten childhood experiences, these principles frequently guide our adult actions without ever being exposed to the light of rational questioning. Eventually, however, we will face the negative consequences of a faulty ethics and ask, bewildered, "How did this happen?"

"Sharing" done because someone makes you do it is just as much a self-contradiction as is the notion of "forced charity." The redistribution of income applauded by most politicians; the cries of our citizens for "entitlements" and social welfare programs to fulfill personal needs or desires; the idea that governmental interference in our private lives is proper; and the contention that taxation, the draft, and paternalism are moral actions—all these destructive beliefs and actions can trace their roots to the kind of mind-set which says to innumerable and defenseless small children, "You have to share," when their toys are taken.

The good intentions of parents and adults do not alter the damage they are doing. They feel they have fulfilled their parental duties when—sure enough!—the child surrenders his toy to the uncertain mercies of that other small child. If by chance the toddler-owner should further resist, he is accused of being "selfish," even though that opprobrious label is somehow never attached to the child grabbing and demanding that he be given access to the first child's possessions.

The implicit messages parents sent by their orders to "share" are many; that your private property does not *really* belong to you; you can enjoy it only until someone stronger comes along and demands that you surrender it; that the use of force is proper morality; that the surest avenue for gaining what you want from someone is not by negotiating for it but rather demanding that you need or simply desire that person's property; that your own desire to hold your property must be subordinated to the desire—should we say avarice—of those-who-have-not, regardless of whether they deserve any such help or assistance; and that proper self-interest is bad and must—and will—be punished.

Through countless little morality plays,

children grow into adults who accept the notion that those who demand the property of others are entitled to receive it, and those who defend their own property are immoral. The demands of the homeless, the uninsured, the student, the businessman, and the retiree, jealous of others who have what they do not, are echoes of the whining cries of those spoiled children who "want" and "need" the toys of their playmates.

But a free society cannot survive by following such moral principles. A just society demands that all transactions be voluntary; that no one initiate force directly or indirectly; that someone else's need or desires does not give him license to enslave you, or tax you; that the only proper function of a government is to protect our lives, liberties, and properties, and not to violate them.

Might does not make right, neither for children, nor adults nor governments.

If parents want to teach their children to share, they first need to understand it themselves.

Parents should tell their children first that what is theirs is theirs: They need not share if they do not want to. By the same token, they cannot use the toys of other children—if those children prefer not to share. The idea of property is fundamental. Should a child wish to use another's toy the proper course for him to follow is to *ask*. If the other child declines, he should offer an exchange of some kind: this duck for that elephant. If the answer is still no, they should either increase their offer or be satisfied with what they already have. Under no circumstances should a child be allowed simply to seize the property of another. If another child should take a toy your child does not want to give up, the aggrieved party should feel free to come to you to rectify the problem, i.e., to return the toy, *not* to take the side of the thief against the innocent victim.

Voluntary interactions, exchanges, and negotiation; the sanctity of private property; parents who encourage cooperation and punish theft; a government designed to protect rights, not to violate them: These form the foundation of a free market, a free society, and a free individual. □

LEARNING FROM EXPERIENCE

by Ivan Pongracic

As the press has widely reported recently, another "enthusiastic Communist from [the United States] who disappeared without a trace in the late 1940s,"¹ has been found. He is living in St. Petersburg (formerly Leningrad) and freely admits that he squandered his life. His confession: "I made a tremendous mistake. Knowing what I do now, it was a tremendous mistake to have done what I did."

What did he do? Believing that Communism was the salvation of the human race, Joel Barr went first to Czechoslovakia, married a Czech woman, and, when in 1956 Nikita S. Khrushchev invited him and another American, Alfred Sarant, to start their own microelectronics institute, moved to the Soviet Union, changed his name to Josif Veniaminovich Berg, designed the first Soviet computer, and then helped to build the first Soviet radar-guided anti-aircraft gun. He confesses his hope at the time was that by helping Communism thrive it would one day spread to America.

When Mikhail Gorbachev came to power and disclosed the atrocities of Stalin's purges, Mr. Barr all but overnight lost his faith in Communism. Wasting "no time mourning the death of the theory that he had served most of his adult life," he became a proponent of the American Revolution. He now believes that "history will show that the Russian Revolution was a tremendous

mistake. It was a step backward for mankind."

His story is, to say the least, educational. Although he has been neither the first nor, unfortunately, the last of the American intellectuals whose unrealized dreams about a terrestrial paradise made them aware that they had wasted their lives "building socialism," not many of them have been ready to admit their mistake. And no wonder. Intellectuals, according to Webster's dictionary, are persons "able to understand," persons "of superior intellect." To admit to having been fooled by such a devious system is not easy for someone who is supposed to make a living using "superior intellect."

Why, then, have so many of the so-called intellectuals repeated this mistake of falling in love with Communism?

The reasons abound. First, too many of them suffer from the materialistic illusion that man can live by bread alone. They seek a world of maximum production, a world without poverty, a world of equal redistribution of Earth's wealth. Since the "anarchy" of a market economy cannot achieve this goal, a deliberately guided economy is needed. Once reached, the material abundance should make everybody not only happy and fulfilled but even more willing to work for the common good.

On the other side of the spectrum we find those desperate to find a new god. Declaring Christianity dead, they are willing to put their faith in charismatic figures such as Lenin, Stalin, Mao, Castro, or Pol Pot.

Professor Pongracic teaches economics at Indiana Wesleyan University, Marion, Indiana.

Wanting their minds liberated from the laws of God, they immerse themselves in Dialectical Materialism as the only possible way to achieve the ideal of the brotherhood of man. The means to achieve this are a complete abolition of property, the control of production, and the medium of exchange.

Finally, most of them abandon the market economy because it is not likely to provide them with the wealth or power they seek. Not catering to the tastes of the masses, whom they mostly despise, and unwilling to involve themselves in the work of representative politics, which they also despise, they long for a Grand Plan which would recognize their talents immediately and call them into action. Socialism, in all its variants, offers them rank among the elite, among the class of social engineers, who possess a degree of power that not only secures a comfortable life but also allows them to manipulate other people's lives according to their omniscient wisdom. As Eric Hoffer reminded us in his book *The Temper of Our Time*, "the intellectual who as a 'man of words' should be a master in the art of persuasion refuses to practice the art once he is in power. He wants not to persuade but to command."

When approached with empirical proof that their wish systems necessarily result in total disaster, these intellectuals are notorious for rejecting the notion.² That such a system could kill or starve millions of people, send thousands of dissenters to lunatic asylums, and use psychiatry in general as a tool of political punishment, or pack whole villages to concentration camps situated in areas where survival was all but impossible, has often been denied in a blind rage. Such intellectuals are even less willing to accept that their system rapidly deteriorates into moral and monetary corruption, with the *nomenklatura* indulging itself in the most conspicuous consumption imaginable.

Joel Barr now "spends his time thinking up ways to convince his still radical American friends that Marxist-Leninist theory is fatally flawed." The question is, why should his friends believe him?

At the time he decided to leave the United

States, there were already people who had seen the future and did not like it. Their books, attempting to warn people like him about the real nature of Communism, were rejected as reactionary. Would their warnings have changed his mind? Would reading these books have made him stay in America? Would they have saved him from, in his words, committing "a tremendous mistake"? There is no way of knowing. Yet their message was clear and unmistakable.

In 1946, a high Soviet official—who had defected in 1944 as a member of the Soviet Purchasing Commission in Washington—published a book, *I Chose Freedom*.³ In almost 500 pages, Victor Kravchenko described in painful detail the sufferings of both the common people and Party officials by the hand of a lunatic dictator. His chilling stories about "failure and waste" in industry, about the deliberate starvation of Ukrainian peasants, about the psychological destruction of 99 percent of the Soviet population, about his own encounter with death in a Gulag, must be read to comprehend the brutality of the system it describes.

(When accused of lying and being a Western spy, Kravchenko sued *Les Lettres Françaises*, a Communist literary weekly published in Paris. After bringing hundreds of witnesses to Paris to confirm his story, he won the trial. As Ludmilla Thorne explained in the introduction to the 1989 Transaction edition of Kravchenko's second book, *I Chose Justice*,⁴ first published in 1950, all "witnesses were primarily simple men and women, some of whom were illiterate. They described how they had been dragged out of their homes, all their possessions taken away by local Party officials. Children had often been thrown screaming onto the snow like discarded ragged dolls. Families had been transported in cattle cars like human cargo, sometimes for ten or twelve days, to collective farms or labor camps. The corpses of those who died had been thrown off the trains whenever they stopped, and sometimes the death trains did not stop for days." Bitterly she adds later, "The heartlessness of such events is usually lost in

scholarly journals and books written by contemporary Sovietologists.”)

Several pages of Kravchenko's *I Chose Freedom*, were dedicated to American intellectuals. He was “shocked” when he realized that “Stalin's grip on the American mind . . . was almost as firm as his grip on the Russian mind.” He describes how he had “to listen in frustrated silence” while American intellectuals spent hours praising Stalin's achievements. His endeavors to explain that this “tinselly picture of a happy and successful ‘socialist’ nation [was] imposed upon [the American] mind . . . by the best propaganda machine in all history” were useless. He found it “truly extraordinary” that “the Communist reality—like slave labour, police dictatorship, the massive periodic purges, the fantastically low standard of living, the great famine of 1932–33, the horrors of collectivization, the state organized child labor—seemed to have completely escaped American attention.” Kravchenko relates that when he dared to mention such things to American intellectuals, they usually “looked at me incredulously and some even hastened to enter cocksure denials.” Those who already knew about these atrocities, readily tolerated them “as a kind of interlude before paradise is ushered in.”

Kravchenko thus tried to warn “the great mass of Americans” that their so-called intellectuals could be divided broadly into two groups: one that was totally ignorant of the totalitarian nature of the Soviet regime, including many alleged “experts on Soviet Russia,” and another that accepted “lying about Russia [as] a method of class warfare: their shortcut to power.” Kravchenko describes his final disappointment when he realized that he was “denounced and ridiculed by precisely those warm-hearted and high minded foreigners on whose understanding and support I had counted.”

The “God that Failed”

Kravchenko could have been dismissed by the Joel Barrs of that time as a marginal case—a Communist official who had not

been promoted quickly enough to satisfy his ego. But there were others. In *The God That Failed*,⁵ for example, six famous writers—two Americans, an Italian, a Frenchman, an Englishman, and a German—decided to put together some of their previous writings in which they described the experiences which led to their disillusionment with the Soviet system. As the publisher of the book put it: “They found out—in pain and disgust—that they were wrong; that the words ‘brotherhood’ and ‘freedom’ are merely catchwords to Communists; that ‘truth’ is whatever the Party says it is at the moment; that the very things they had joined the Party for were most endangered by the Party itself.”

They had at first willfully accepted the belief that Marxism had “exploded liberal fallacies” about capitalism as a system of automatic progress, as an economic system without booms and slumps, as a just system where racial discrimination and other injustices are unknown. Consequently, watching their old world fall apart, such intellectuals, in desperation, turned to Marxism. “Christianity is bankrupt,” concluded André Gide, so fellow travelers turned to “a creed which seemed to provide a complete and final answer to the problems of both social and racial injustice.”

Soon, however, they were to discover that their god was devouring his own children. They found out that some of their friends, totally dedicated Communists, had perished in the labor camps, were shot by firing squads, or simply vanished without a trace. They found, in Arthur Koestler's words, that “At no time and in no country have more revolutionaries been killed and reduced to slavery than in Soviet Russia.” But, more “disheartening than the barbarities committed by the simple in spirit,” i.e., Russian Communists, was “the spectacle of [those] dialectical tight-rope acts of self-deception, performed by men of good will and intelligence,” namely Western intellectuals.

Louis Fischer's moment of revelation came with the Soviet-Nazi pact. He realized that “Totalitarians of all feathers understand each other.” For a long time he had

been willing to accept a "temporary suspension of freedom [which would] enable the Soviet regime to make rapid economic strides." Finally, however, he realized that "On the backs of the nationalized proletariat and the nationalized peasantry, with the cowed, kowtowing bureaucracy and intelligentsia crying 'Bravo,' Stalin has built a supernationalistic, imperialistic, state-capitalistic, militaristic system in which he is, and his successor will be, the Supreme Slave Master."

André Gide's story was similar. Traveling first to Communist Russia and then to Fascist Italy in the 1930s, he had discovered the same slogans on the walls in both countries: Believe, obey, and fight. It had suddenly dawned on him that "The Communist spirit has ceased being in opposition to the Fascist spirit or even differentiating itself from it." After some more eye-opening experiences, he decided to warn "the workers outside the Soviet Union . . . that they have been bamboozled and led astray by the Communist Party, just as the Russian workers were duped before them. . . . [I]n Marxian doctrine there is no such thing as truth—at least not in any absolute sense—there is only relative truth." The man who found Christianity bankrupt had to admit that "Russia . . . has failed to become a god and she will never now arise from the fires of the Soviet ordeal."

And then there was Max Eastman, a poet, philosopher, journalist, translator. Right before the Russian Revolution he came to the conclusion that socialism was the only way to "make all men as free to live and realize the world as it is possible for them to be." He dreamed that by socializing the means of production the socialist could "extend democracy from politics into economics." By "a process of thought rather than feeling," Eastman pronounced Marxism a "large-scale social-scientific experiment," the only one capable of producing "a society without distinction of caste, class, race, money-power—without exploitation, without the 'wage system.'"

That was in 1916. Then, in the 1920s, he visited the Soviet Union. First he realized

that "Instead of liberating the mind of man, the Bolshevik Revolution locked it into a state's prison tighter than ever before. No flight of thought was conceivable, no poetic promenade even, no sneak through the doors or peep out of a window in this pre-Darwinism dungeon called Dialectic Materialism. No one in the Western world has any idea of the degree to which Soviet minds are closed and sealed tight against any idea but the premises and conclusions of this antique system of wishful thinking."

Eastman found the economy abysmal. He concluded that "the whole idea of extending freedom, or justice, or equality, or any other civilized value, to the lower classes through common ownership of the means of production was a delusive dream, a bubble that had taken over a century to burst." He realized that man has "a choice between two and only two business systems. . . . We can choose a system in which the amount and kind of goods produced is determined by the *impersonal* mechanism of the market, issuing its decrees in the form of fluctuating prices, or we can choose a system in which this is determined by command issuing from a *personal* authority backed by armed force" (italics in original). The former is "the spontaneous way of producing wealth with elaborate machinery and a high division of labor." The latter is a "return to barbarism."

Finally, Eastman quoted Arthur Koestler, who said that the Western intellectuals of socialist persuasion were "men of good will with strong frustrations and feeble brains, the wishful thinkers and idealistic moral cowards, the fellow-travelers of the death-train." He devised a special name for them—"the champions of a lawyer-manager-politician-intellectual revolution."

Lessons from Mises and Jewkes

If all of this was not enough to open Joel Barr's eyes, and if he wanted an opinion from a trained economist, he could have chosen between the Austrian Ludwig von Mises (whose *Socialism* was first published

in English in 1936) and the English economist John Jewkes (whose *Ordeal by Planning* was published in America in 1948). In *Socialism* he could have discovered why a socialist economy is an impossibility. Not only would the omnipotent planners be incapable of planning, asserted Mises, they would not even know where to begin to look for the meaningful data. Because the pricing system was nonexistent, planners would never know where and why more capital is needed nor which needs of the population should be satisfied first and which later. With no profit and loss system, they would never know whether or not their endeavors were successful.⁷

In Jewkes' work, Joel Barr could have learned that "economic confusion" is "the breeding-ground of totalitarian ideas." The lack of understanding of the pricing system is the main factor pointing socialism in the direction of inevitable disaster. "More converts are brought to the planning fold through ignorance of the price system than through any other cause," warned Jewkes, because "those who cannot, or will not, acquaint themselves with the principles of this system have no clue through which to reach an understanding of the intricate organization operating around them. Tortured and bemused by the fear of the unknown, they finally come to believe that everything in the free economy is subject to 'the blind ravages of chance'; that what is produced, what work each man pursues, what price is fixed for commodities are isolated *ad hoc* decisions. Into this intellectual vacuum the idea of a planned economy rushes with all the force of a gospel of salvation."⁸

There is no way of knowing whether or not Joel Barr had read any or all of these books. Nor can we know what his reaction was or would have been. But since he had to spend more than forty years in the Soviet Union to have his eyes opened, we can suspect that little would have changed. Now he is warning "his still-radical American friends" but, again, why should they believe him? He obviously did not believe others who wanted to warn him.

The intellectuals' unwillingness to change

their beliefs has been perfectly illustrated recently. In 1990, Robert Heilbroner wrote in *The New Yorker*⁹ that "the Russian collapse . . . came as a shock." It was shocking to him "that the system deteriorated to a point far beyond the worst economic crisis ever experienced by capitalism," and it was even more shocking "that the villain in this deterioration was the central planning system itself." The system "produced grotesque misallocation of efforts," the planners had "to keep track of . . . 24 million prices," while the produce "often rot[ted] in warehouses." He was also shocked when he found out that "the Soviet Union [had become] the first industrially developed country in history to suffer a prolonged fall in average life expectancy during peacetime."

Heilbroner relates more shocking news. Yet, at the end of his article, he actually develops a most curious defense of socialism and a planned economy. To make "our economic peace with the demands of the environment," to cope with "the ecological burden that economic growth is placing on the environment," the "realization that socialism [as] a social order designed to ward off economic disaster . . ." is unavoidable. In the name "of our grandchildren . . . our great-grandchildren or great-great-grandchildren," he wants us to believe that a planned economy "is the direction in which humanity will have to travel . . ." (One wonders if he ever visited parts of the Ukraine, Czechoslovakia, East Germany, or Russia to see what a planned economy does to the environment.)

In a recent interview,¹⁰ Robert Heilbroner categorically reaffirms that he has not "turned my back on this long honorable tradition of democratic socialism." Stating that although "The system [in the former Soviet Union] fell down for reasons we don't entirely understand," he reminds the reader that the system "was very successful in the early days. Russia was a very poor country, but the Russian Revolution under the leadership of Lenin did somehow manage to marshal its resources in a way that had not been previously possible." (Mr. Heilbroner need only read Kravchenko to

demolish this persistent myth about pre-revolutionary Russia. Russia was *not* "a very poor country." It became "a very poor country" only *after* the Revolution.) At the end of this rather long conversation (in which he also warns Americans not to pay too much attention to budget deficits and public debt in general), Heilbroner states that those who believe in capitalism must always remember that "capitalism, in addition to being a fantastic source of growth, is also a fantastic originator of problems."

Joel Barr must understand that these days—with the new President talking about more active government, and most of his friends and advisers defending something euphemistically called industrial policy, managed markets, managed trade, managed exports and imports—the American Left is euphoric again. His "radical American friends" are equally as willing to listen to him as he was willing to listen to a Hayek, a Kravchenko, a Gide, and others in the 1940s. Their old dream, what Hayek called "a despotism exercised by a thoroughly conscientious and honest bureaucracy," is within reach again.¹¹ The 1960s radicals are now teaching economics, political science, law, literature, and history at American universities, hiding their bankrupt philosophies behind the political correctness craze, deconstructionism, cultural studies, and dreaming up ways to construct, very soon, their version of perfect community.¹² The Joel Barrs are pushed into the dustbin of history.

Besides, the American Left is well aware that libraries are replete with books describing what has been happening for decades not only in the Soviet Union, Eastern Europe, China, and other Communist countries, but also in Sweden, Canada, Norway, New Zealand, and other countries which have tried "soft" socialism. They couldn't care less; they simply believe that those old socialists, Communists, and Marxists were too stupid, too unsophisticated to succeed. According to their new creed, socialism and a planned economy are possible. Period. It only takes the right kinds of intellectuals to make it work.

As George Orwell once put it, "You have to belong to intelligentsia to believe things like that; no ordinary man would be such a fool." Unfortunately for the rest of us, the new intelligentsia, the new enthusiastic reformers of the new administration, will have to learn from experience, too. No doubt forty years from now one of them will complain about having made "a tremendous mistake." At that time America may look, more or less, like today's Russia. □

1. Elizabeth Shogren, "U.S. whiz regrets helping Soviet defense industry," *Los Angeles Times*, reprinted in *The Indianapolis Star*, October 25, 1992.

2. The best example is Herman Finer's *The Road to Reaction* (Boston: Little Brown & Co., 1945), an answer to Friedrich Hayek's *The Road To Serfdom*, in which Hayek tried to warn "the socialists of all parties" that they "misconceived the nature of [their] movements" and that their "enthusiasm for the new kind of rationally constructed society" can bring nothing but "results most distasteful to many of its advocates."

3. All quotations are from the Transaction Publishers (New Brunswick, U.S.A., and Oxford, U.K.), 1989 edition.

4. Republished by Transaction Publishers, New Brunswick (U.S.A.), and Oxford (U.K.), 1989.

5. Bantam Books, 1959. Original Harper edition was published in January 1950.

6. All quotations are from *Reflections on the Future of Socialism*, Viewpoint Books, 1955. Although published too late for Mr. Barr to read before his defection, it is obvious that Mr. Eastman was simply repeating in this work his thoughts that he had already formed in his previous books and articles published in the 1930s and 1940s.

7. Ludwig von Mises, *Socialism, An Economic and Sociological Analysis* (London: Jonathan Cape, 1936).

8. John Jewkes, *Ordeal by Planning* (New York: The MacMillan Company, 1948).

9. Robert Heilbroner, "After Communism," *The New Yorker*, September 10, 1990.

10. *Classrooms & Lunchrooms*, A Journal for Teachers of Economics, Prentice-Hall, Fall/Winter 1992-93.

11. Kevin Pritchett, in "Reading Laura Tyson" (*The Wall Street Journal*, December 30, 1992), shows Ms. Tyson, the chairman of President Clinton's Council of Economic Advisors, as one professing a strong belief in government intervention. He quotes her 1990 article "Why a National Competitiveness Policy is Needed": "Simply put, certain industries may be more important than others . . . and government policy to promote or protect them can improve welfare." Later she adds that it is "better to err" in the direction of protectionism than away from it. Although Mr. Pritchett does not say it, one must be aware that promoting and protecting "strategic" industries has become the latest euphemism for a planned economy in America. He does emphasize that every time Ms. Tyson "analyzes communist economies on their own terms, she partakes of the fiction that communism worked."

12. Roger Kimball reports that at the 1992 Modern Language Association of America convention its president, after nostalgically recalling the 1960s, expressed his hopes that "the recent Democratic victory [is] a signal that a 1960s-style radicalism will be coming back with a vengeance." Before that he emphasized that "teachers of literature should subordinate literary concerns to the task of fostering radical political activism" ("Heterotextuality and Other Literary Matters," *The Wall Street Journal*, December 31, 1992).

THE CASE FOR HAPPY ENDINGS

by Karina Worlton

I remember having a conversation with an English teacher when I was 12. We were discussing good books. I told her that I never read a book without first reading the ending. If it had a happy ending, then I read it. Otherwise I did not. The teacher told me that I was missing out on some of the best books with my method. I tried to accept what she said at face value. It wasn't until ten years or so later that I was able to take a closer look at the concept of happy endings.

As an English major in college, I took several "period" literature classes, such as "Victorian," "Modern," "Romantic," and "Renaissance." Each period had overlying characteristics that tied it together. For example, many of the early writings in English history were primarily religious in nature.

On the whole, my least favorite works of literature most often were written during the more modern periods. (Different people select different beginning and end dates for periods. I shall broadly define modern as the last 50 or so years.) There is an overwhelming trend in recent literature toward negativism, or "realism" as it is called. The idea behind realism is that literature should be as close to real life as possible. However, it seems that most authors live very sad lives, because in their books no one is allowed to

be happy. In addition, many modern books discuss topics such as drugs, suicide, the occult, and war. These things are not a part of my life, and I do not want them to be.

I now no longer believe that I am "missing some of the best books" by wanting a happy ending. I have come to narrow my definition of "happy ending" to one that leaves me feeling positive about something. The hero of the story might get killed, but if he died defending his principles, I am left applauding the hero's actions.

As a college student, I was often assigned books to read that I felt were very negative. I was told that these books showed life in the twentieth century and therefore they were very important. Furthermore, when we studied books from earlier time periods that were not negative, we analyzed them using modern "realistic" critical viewpoints. In my opinion, there are three main reasons why such books are considered "representative" of this century: Darwinism, Marxism, and Freudianism.

When Darwin's theory of evolution was introduced and gained popularity, it changed the thinking of many people. Many of those who had believed that man had been created by a loving God began to think that science had disproved the existence of a God. Without a God, the remainder of their beliefs, such as a purpose for life and a life after this one, faded away. Life was a dreary drudgery, and death was simply an end.

Karina Worlton is a free-lance writer residing in West Jordan, Utah.



Marxism taught men that they were not individuals, but part of a society (a community). The good of all superseded the good of one. As a result, the belief that mankind consisted of unique individuals who could achieve according to their diverse efforts and talents was supplanted by the belief that mankind was a hive.

Freud's theories were based on the idea that man was a product of his environment and background, and not of his choices and actions. As a result of Freud's theories, many men could no longer believe that their choices and actions made any difference in what they would become.

I remember being required at the ripe age of eight to read a book on suicide and another on an illicit affair. Neither one was appealing or interesting to me. They were not enjoyable nor did they allow me to "escape" from my life; they did not teach me anything I wished to learn; they did not help me to work through any emotions.

Negative literature tends to foster negative attitudes. The more negative input I absorb the more negative I will tend to be. This input will color everything I think and

do. I think the negativism in literature (and other forms of entertainment including movies and television) has been and will continue to be a major factor in the increase of crime, suicide, depression, drug use, and family break-up. Literature which claims to mirror real life helps to create "real life." Ideas have consequences.

Negative literature also causes children and adults to have little or no desire to read. Illiteracy can be blamed on many causes, but negative literature must take its fair share of the blame. What incentive is there to read when literature only creates unpleasant feelings? I believe that if children were given positive, uplifting literature there would be an increase in the literacy rate.

Some may criticize my views and call me naive. However, I have never felt that knowing in detail what being immoral or on drugs or suicidal is like could help me in any way. I have read excellent books where "bad" things happen. In each case, these events were not the whole story. Good things happened as well, and the ending always left hope for the future.

I still read the last pages before choosing a book. □

A NATION OF CHILDREN

by Brandon Crocker

Over the years, many economists and philosophers have pondered the question posed by Joseph Schumpeter, "Can capitalism survive?" With the collapse of socialism in Eastern Europe, one would think that the prospects are favorable. Yet capitalism (at least *free market* capitalism) is under fresh assault in the United States. And the implications of this assault stretch far beyond our mere economic well-being.

Recently, a good deal of debate has started on such issues as government control over the health-care industry, national industrial policy, and government-mandated employee benefits. Most of the debate centers on questions of efficacy and implementation. While many have argued that a more active government will harm the economy, few Americans are taking issue with the basic premise that the federal government ought to be authorized to do all of these things.

Freedom has been a hallmark of American nationhood since the founding. Yet today it is difficult to find many people who understand and embrace the concept. As the discussions of federal policy indicate, freedom lags well behind such material considerations as less expensive health care, job security, and a growing economy in the constellation of concerns of most Americans. What was for a long time the defining word of the American spirit now is freely bargained away by the American people in

Brandon Crocker is Director of Asset Management for a real estate development and management company in San Diego.

exchange for promises of federal paternalism. Such are the political dynamics of the modern welfare state.

Since the New Deal programs of the 1930s, Americans have increasingly looked to government to improve or safeguard their economic positions. Every year new legislation reduces the freedom of some in order to provide benefits to others. It is now hardly questioned that wealth should be redistributed from the successful to the unsuccessful, and that the government should have a strong role in the regulation of commerce.

Seemingly paradoxically, however, Americans still guard freedom in their "personal" spheres quite jealously. They still want to be able to "do what we want to" in their private lives. Increasingly, Americans don't even want people to be able to *disapprove* of their lifestyles, let alone dictate them. (The advocates of this position don't seem to realize the ominous implications to personal freedom implied by this view.) Those who would try to "impose their morality" on others are demonized in the popular culture, and growing numbers of Americans count unrestricted access to abortion, for example, as a fundamental right. Americans, like children, want some benefactor to take care of their needs and problems, but leave them alone to act as they please.

But there really is no paradox demonstrated in demanding that government provide goods while vigorously attacking government intrusion into "personal" matters.

Americans are asking for an unhindered road to personal self-fulfillment, and a government empowered to help them through any difficulties which may arise. This is the attitude we expect from children and others who have been shielded from the full responsibilities of life, and it is symptomatic of a people with a heritage of freedom who have been corrupted by an expanding welfare state.

Economic Controls Are People Controls

When discussing government intervention in the economy, it is prudent to remember that a nation's economy is nothing more than the decisions of individuals as to what to produce and what to consume. Therefore, a government-controlled economy necessarily means government-controlled people. The greater the control the government has in the economy, the smaller the sphere of personal freedom. Whenever we demand that government intervene to give us some benefit, we are simultaneously demanding that government intervene to deprive someone else of some freedom. Even if only the personal freedoms of others are directly affected by our demands, we reduce the barriers of tradition and attitude that protect our own freedoms, as well.

Punitive taxes on tobacco and alcohol are an attack on personal freedom disguised by the rhetoric of "solving the health-care crisis." These new taxes are being justified on the grounds that smoking and drinking cause health problems which put a strain on health-care resources. If we deem this proper justification have we not acquiesced to the proposal that government can and should regulate all sorts of personal choices? If putting special taxes on (or even outlawing) smoking and drinking is fine, what about other potentially unhealthy activities like hang-gliding, high school football, or eating red meat? Will all our individual rights that could conceivably affect health-care costs be subject to majority rule? Or, having turned over to government the power and responsibility to maintain

and pay for our health-care system, will our individual rights have even that much protection?

Is this far-fetched hyperbole? One would like to think so. But then again, how many of the enlightened liberals of the 1930s thought that Mao's "land reforms" would lead to the state dictating (through economic "incentives" and coerced abortions) how many children families could have? How many socialist utopians of the 1960s thought that a People's Republic (with free health care and job security) like Czechoslovakia could forcibly relocate the inhabitants of an entire city so that government-controlled utility providers could have access to coal deposits? And how many of our fathers and mothers would have thought that in the United States of America, small businesses could be sued out of existence because their work forces did not closely enough match the ethnic and sexual makeups of the community? The United States has a long tradition of freedom, as well as some still functioning constitutional safeguards. But it is sobering to step back and look at just how far we have traveled over the last 75 years.

Like children, Americans will sooner or later discover that they cannot rely on some authority to take care of them and still be free. It is a truism that with freedom comes responsibility. It is also true that freedom only lasts if people take responsibility for their activities and reject the premise that their lives should be made easier at the expense of other people's freedom.

History clearly shows that it is harder to win back freedoms than to give them away. Governments rarely agree to relinquish power, and groups which have come to depend on government-provided largess will join in opposition to any such movements. So it is important that all who can try to awaken their fellow citizens to their folly, or soon it won't be Schumpeter's question we'll be pondering, but rather the one posed by Francis Scott Key: "Oh, say does that star spangled banner yet wave, o'er the land of the free and the home of the brave?" □

THOMAS CHALMERS AND THE POOR LAWS

by Clifford F. Thies

Thomas Chalmers (1780–1847) was ordained in the Church of Scotland in 1803. In his first ministry, in Tron parish of Glasgow, Chalmers quickly developed recognition as a great speaker from the pulpit. A Calvinist, he was deeply impressed by the importance of faith, as distinguished from good works, for salvation.

In 1819, he was appointed minister of St. John's parish, the largest and the poorest in Glasgow. In this position, he got permission to completely substitute church charity for public welfare, and achieved great success both in relieving poverty and in reducing the cost of relieving poverty.

His method was to treat each person's need individually, seeking always to uplift the disadvantaged, distinguishing between the "deserving" and "undeserving poor," and involving family and community in the fight against poverty. During the next century, followers would implement these ideas throughout Great Britain, the United States, and other parts of the English-speaking world.

Chalmers' efforts to reform the poor laws went hand in hand with his opposition to the Corn Laws, which restricted international trade in order to "protect" domestic agriculture; to grants of legal monopoly to industry; to prohibitions against free unions;

Clifford Thies is Durell Professor of Money, Banking and Finance at Shenandoah University in Winchester, Virginia.

and, to the heavy burden of taxation upon the laboring classes. In all these cases, he saw government interferences with the workings of a free society—including both its competitive and cooperative spheres—as disrupting the natural, or even the divine order of things.

Later appointed to university positions at St. Andrews and at Edinburgh, Chalmers gained increasing recognition as a leader of the evangelical wing of the Church of Scotland, seeking independence of the church from civil authority, and the right of parishioners to elect their own ministers. Accordingly, after "the Disruption of 1843," when 203 commissioners walked out of the General Assembly of the Church of Scotland, Chalmers was named first moderator of the Free Church of Scotland.

A prolific writer, his more significant books include *An Enquiry into the Extent and Stability of National Resources* (1808), which concerned the probable effects of the Napoleonic blockade; *Christian and Civic Economy of Large Towns*, in three volumes (1821–26); *On Political Economy* (1832); *On the Adaptation of External Nature to the Moral and Intellectual Constitution of Man* (1833); and *Institutes of Theology* (1849).

Outdoor Relief

As the nineteenth century got underway, the effects of eighteenth-century changes in

the poor laws were becoming evident. These changes included the authorization of "outdoor relief" for the able-bodied poor. No longer were the able-bodied poor required to enter the poorhouse, in which they would have to perform work, including make-work if necessary; they would now be able to subsist in their own homes. These changes were thought to be more humane to the poor and economical to the taxpayer. But over time they had exactly the opposite results, increasing misery among the poor and laboring classes, and increasing the financial burden placed on the taxpayer.

Influenced by the writings on population of Thomas Robert Malthus, also an evangelical, Chalmers argued that any increase in relief for the poor would result over time in an increase in their numbers, absorbing the increase in relief in an increase in poverty. (Chalmers argued that this rule wouldn't apply to extending relief to the "deserving poor," who were impoverished by reason of mental or physical disability, old age, or orphan status.)

For several reasons, outdoor relief undermined the economic conditions of the poor and laboring classes:

Unskilled workers would have to compete against those receiving outdoor relief, who because their earnings were augmented could work for a lower wage. Without such subsidized competition, wages for unskilled workers would be higher.

The increase in taxes needed to finance outdoor relief would increase poverty among otherwise self-sufficient people, whom we now refer to as the working poor. Thus, distress wasn't relieved, but merely shifted to a class far more deserving than the class being aided.

As a result of the extension of outdoor relief, "the springs of gratuitous benevolence have been well nigh dried up. . . ." Men were subtly encouraged to abandon their families, parents their infant children, and grown children their aged parents. Furthermore, the ability of private charity to exercise "delicacy" and "discrimination" in the administration of relief, responding generously to those in true need, and deny-

ing relief to the undeserving, was replaced by "the regulated ministrations" of the poverty officials.

The able-bodied but idle poor were prone to "the mischief which proceeds from idleness"; including "relaxed industry," intemperance, licentiousness, and degraded respect for honesty and property. Indeed, patriotism was replaced by class struggle between "the higher and lower divisions," the former viewing the latter as a burden, and the latter viewing the former as unjustly withholding its due.

Finally, regarding those who truly needed to be supported, their support was cut short by the increased financial strain on the treasury. Funding was cut and economies forced in the public infirmaries, dispensaries, and asylums that served the enfeebled aged, the disabled, orphan children, and that responded to the periodic needs of the laboring classes for assistance in times of distress. Thus, "public charity has been profuse where it ought not, and it has also been niggardly where it ought not."

To Chalmers, there was a clear distinction between justice and charity: "Justice, with its precise boundary, and well-defined rights, is the fit subject for the enactments of the statute book; but nothing can be more hurtful and heterogeneous, than to bring the terms, or the ministrations of benevolence, under the bidding of authority" The problem with outdoor relief wasn't that it incorrectly asserted that we have an obligation to help the deserving poor, but that we turned to the government to fulfill this obligation. The sphere of the civil magistrate is justice, not charity.

Chalmers argued for nothing less than an immediate and complete abolition of outdoor relief. "Would it not be better that all this bungling and mismanagement were cleared away at once?" he argued. To those who criticized his radical approach, he answered, "How comes it that he who questions the expediency of poor-rates is usually regarded as a man of visionary, or at least of adventurous speculation; and that he who resists every change of habit, or of existing institution, is deemed to be a man of sound

and practical wisdom, who, unseduced by any ingenious or splendid sophistry, sits immovably entrenched within the safeguards of experience?"

Progress Against Poverty

In 1834, the English Parliament ended outdoor relief; as more or less did the several states of the United States at about the same time. There followed a century of progress against poverty, spearheaded by the harnessing for good of both self-interest and compassion that occurs in a free society. Private charities sprang up on both sides of the Atlantic like flowers in the springtime, bringing help to almost everyone in need, especially during times of natural and economic distress.

So successful was this effort that the very definition of poverty came to be revised again and again, so that what we now consider to be the minimum standard of living consistent with human decency would be beyond the imagination of those in

Chalmers' day.

But with the return of "outdoor relief," this progress against poverty has now come to halt. The government's definition of poverty hasn't been changed since the 1960s, and the numbers and percentage of people who are poor by that definition have been on the increase. Standards of living among working people have been falling, and the taxpayers of our generation have been forced to send their wives and children into the labor market.

It was one thing for the compassionate people of the eighteenth century to wish to use the awesome powers of the government to "do something" for the poor. The same could be said about the compassionate people of our own century. It was and is another thing to resist changing the welfare system that was supposed to help the poor once the disasters of that system become obvious. At such times, it is for men of faith, men like Thomas Chalmers who trust in God's providential design, to have the moral courage to advocate real change. □

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208 pages indexed, \$14.95 paperback

REFUTING OSWALD SPENGLER

by John Chamberlain

Is there an excuse for a volume the length of *The Rebirth of the West* (Cambridge, Mass.: Blackwell, 1991, 736 pages, \$69.95)? The answer, rather obviously, is that the book might have been published as six or seven volumes. Peter Duignan and L. H. Gann have each done many important studies for the Hoover Institution in California. Duignan has edited more than thirty volumes dealing with the Middle East, Africa, and Hispanics in America, and Gann has been right behind him.

The authors have a two-part theme; the general post-war recovery, and the special role of the U.S. in creating an Atlantic Community from 1945–58. Together, they have mastered the art of interesting and relevant quotations in a way that would have pleased the late Leonard Read. They quote the British historian Macaulay:

It is not by the intermeddling . . . of the omniscient and omnipotent State, but by the prudence and energy of the people, that England has hitherto been carried forward in civilisation; and it is to the same prudence and the same energy that we now look with comfort and good hope. Our rulers will best promote the improvement of the nation by strictly confining themselves to their own legitimate duties, by leaving capital to find its most lucrative course, commodities their fair price, industry and intelligence their natural re-

ward, idleness and folly their natural punishment, by maintaining peace, by defending property, by diminishing the price of law, and by observing strict economy in every department of the state. Let the government do this: the People will assuredly do the rest.

Macaulay wrote these lines in 1830. They do not check with much that has happened since, especially after World War II. By the mid-1950s, the state in Western Europe controlled all postal communications, telephone services, nearly all radio and television stations, as well as large segments of the mining and steel industries. The state accounted for 100 percent of the coal mining in Britain and Italy, 98 percent in France, 60 percent in Holland, and 26 percent in West Germany, an anomaly.

The state patronized the arts, even to the point of sanctioning pornography. It licensed street walkers. In the name of Keynesianism it has indulged in all manner of national planning. The Marshall Plan was fundamentally a subsidy affair, deemed necessary to bring city and country together. European peasants had not seen fit to bring their food to city markets that had little to offer in exchange.

If most people took what the state offered without quibbling, there were the important exceptions. Adenauer in West Germany looked with favor on the idea of a free

market. Ludwig Ehrhard, minister of Adenauer's Rhineland economy, abolished price controls, ended rationing, and reduced onerous regulations.

In spite of all travails, the post-World War II years impressed Duignan and Gann as "marvelous"—thirty golden years of achievement "anticipated by few."

This brings Duignan and Gann back to Macaulay: "Had he returned to survey the post war scene in the West he would have felt vindicated in his optimism."

In "overview entries," Duignan and Gann summarize such topics as education, both elementary and secondary, the Berlin blockade, the decolonization schemes for Africa and Western Asia. There are chapters on the progress of the Cold War, with résumés of what was said and done at Teheran, Yalta and Potsdam. The Marshall Plan gets more than its share of attention. The literature of the U.S., Britain, and Western Europe, and the radio, television, and music are all related to the global scene.

"Our task," say the authors, has been to fashion a synthesis based on "the best scholarship." Oswald Spengler's *Decline of the West* has been refuted, at least for the thirteen years covered. □

the future, as always, is understanding the past."

Olasky argues that indiscriminate government handouts of aid do not better the individual; instead, they merely foster further moral laxity and irresponsibility. Poverty can be alleviated, however, not only as well-to-do individuals help less fortunate individuals, but also as the better-off help the morally and economically downtrodden learn to live out the biblical work ethic in their lives. Personal beliefs and personal values play a determinative role in the economic outcome of one's life.

The early American concept of charity, as expressed from both pulpit and printed page, stressed biblical themes. This established the cultural and intellectual framework for viewing the problem for at least the next 250 years. Charitable aid was encouraged to be given in a spirit of generosity (which in those days was associated with nobility of character, as well as gentleness and humility). Emphasis on a God of justice and mercy, and of man as a fallen, sinful creature, led people "to an understanding of compassion that was hard-headed but warm-hearted." Those in genuine need would be helped, but those who were slothful were allowed to suffer until they showed a willingness to change.

Other strong concepts also emanated from this theistic outlook: Giving was to be done not mechanically but from a spirit of genuine love; almoners of charity were to acquaint themselves personally with the poor, so as to discern better who deserved aid and who did not; moral and spiritual guidance was to be dispensed along with material aid; because men's sinfulness often prompted them to abuse charity, donors were advised to withhold it at times; and giving was done in such a way as to strengthen and encourage family life. Charity of this type not only characterized the predominantly Protestant population, but also the small Catholic and even smaller Jewish minorities as well.

The growth of cities in nineteenth-century America often intensified the needs of the poor. In response, the new world came to

The Tragedy of American Compassion

by Marvin Olasky

Regnery Gateway • 1992 • 290 pages • \$21.95

Reviewed by Daniel A. Bazikian

Marvin Olasky believes that the present American poverty programs and welfare system have failed, not only in terms of money squandered, but also in regard to human souls corrupted and national character corroded. As a Christian, he argues for a biblical model for fighting poverty. In *The Tragedy of American Compassion*, Olasky develops this argument historically, by chronicling and criticizing efforts to fight poverty from colonial times to the present. As he states in his introduction, "The key to

look to the old for a workable answer. Scottish theologian Thomas Chalmers, a strong critic of the government-run, indiscriminate "outdoor relief" established in England's newly industrialized cities, adhered basically to the same viewpoint on poverty as his American counterparts. From 1819 to 1823, he devised a plan for implementing his ideas within a specially created, ten thousand-person district (the Parish of St. John) in Glasgow. Within this parish, state, or other indiscriminate aid was excluded and all needed relief was to be met by the donations of parishioners. Chalmers divided his parish into 25 districts, each the responsibility of a deacon who would investigate who were the genuinely needy. The effects reportedly were remarkable: Church charitable giving increased (donors were confident of the wise use of their money); the better-off induced the poor through habits of industry and thrift to improve their lot; and the number of poor in the parish as a consequence shrank.

By around the middle of the century, charitable societies in every major American city were being established mainly along Chalmers' lines. Workers in these organizations shared a view that the underlying causes and long-term needs of the poor were religious. Only when the poor learned to address these needs would they lift themselves (through God's help) out of poverty.

Up to the 1840s, a general consensus still prevailed regarding society's treatment of the poor. Charity was handled mainly through private efforts. Government support of the poor was limited. The English system of indiscriminate state aid to the poor was scorned as degrading to the recipients.

That decade witnessed the first serious challenge to this consensus. Horace Greeley, founder and editor of the *New York Tribune* as well as a theological Universalist and utopian socialist, believed in the natural goodness of man, as well as the corrupting influence of capitalist society. According to Greeley, every person had a right to both eternal salvation and temporal prosperity, and poverty was to be alleviated by redis-

tributing the wealth to everyone without making moral distinctions as to the recipients.

Later in the century came the attack of the Social Darwinists, who viewed the struggle within society in terms of the survival of the economic fittest. Character, they contended, was hereditary, and attempting to lift those poor souls from the grips of vice and poverty was therefore useless. Both of these attacks were ably and articulately confronted by those holding Christian views of charity.

Another and more subtle assault on this consensus was to have a more devastating impact. A new strain of liberalism (referred to as "Social Universalism" by Olasky), combining theological liberalism and political socialism, gained a strong following among the nation's intellectual and literary elite. Theologically, its adherents substituted the notion of God's love for all, for the notion of God's love for his people. Instead of emphasizing charity to individuals, the new emphasis (similar to Greeley's) was on aiding the masses through improvement of their environment. The religiously distinctive principles of traditional charities were also muted or removed. This new charitable outlook found expression in the "settlement house" movement of the 1890s (of which Jane Addams' Hull House in Chicago was the flagship). According to Olasky, this movement would become the inspiration for governmental social work programs of the 1930s and the community action programs of the 1960s. Along with these developments, a new discipline, sociology, was emerging, which would leave its strong imprint on twentieth-century work among the poor. In general, these movements looked to the government as the proper agency to bring about the needed social changes and reforms.

These new currents of thought affected the charitable system in important ways. Professionals, rather than volunteers, would now tend to dominate. The roles of non-professionals would be reduced to that of fund-raising or giving money. This would bring an increasing social separation between donor and recipient. The old com-

passion (the idea of suffering with the poor) was gone. With the coming of the Great Depression of the 1930s, the private charitable system was overwhelmed, and in stepped the government in the person of FDR and his New Deal.

The advent of the New Deal marked a definitive shift in the federal government's role in respect to society's needy. The cultural ethos of the work ethic, however, remained strong in America. This made it difficult for political leaders to act in terms of direct charitable relief. New Deal programs, therefore, often emphasized their temporary nature, or involved efforts to pay workers for actual work done (e.g., the Works Progress Administration). At the same time, New Deal leaders reiterated their support for the old work ethic. Their pronouncements notwithstanding, a subtle change in public attitudes toward personal responsibility and rugged individualism was taking place.

As late as the 1960s, the cultural bias against welfare still remained, not only among its administrators but also among its recipients. It was left to LBJ's Great Society to breach this cultural wall. Personnel belonging to, or in some way affiliated with, its Office of Economic Opportunity as well as the private National Welfare Rights Organization radicalized the poor so as to demand their full rights or entitlements. The welfare mentality among the poor became firmly implanted, and the number of welfare recipients ballooned.

Olasky's chapter on "The Seven Marks of Compassion" constitutes the heart of his study and of his critique. Seven basic ideas motivated the charity workers of a century ago: *affiliation*, that is keeping the individual's family, religious, or community ties strong so as to strengthen his sense of belonging; *bonding*, or developing a close personal relationship between the charity volunteer and the recipient, in order to coax and encourage the latter to self-sufficient status; *categorization*, or assigning individuals to different categories of need (e.g., the need for continuous relief, relief on a temporary basis, aid in a job search, or just

designating someone as unfit for relief due to unwillingness to work); along with this went *discernment*, the willingness to separate worthy objects of charity from fraudulent ones; seeking the goal of long-term *employment* of all able-bodied heads of household so as to instill self-sufficiency and responsibility in the individual; placing emphasis on *freedom*, or the ability to work without governmental restrictions so as to improve one's lot in life over a period of time; finally, recognizing the relationship of the person to *God*, since men and women had spiritual as well as physical needs.

The presence of these principles gave traditional charities their great strength. Conversely, their absence in contemporary charity does so much to explain the spiritual and moral poverty of American compassion and its tragic social consequences: the decline in upward mobility of the poor; the weakened state of private charity; and the disintegrating state of marriage. These principles, Olasky contends, need to be reinserted and reintegrated into programs to aid the poor.

Olasky has set forth his case compellingly and clearly. One hopes that this book will act as a catalyst in bringing about a thorough discussion of the issues involved so that the needs of the poor can be properly addressed. □

Mr. Bazikian is a free-lance writer from Weehawken, New Jersey.

Failure and Progress: The Bright Side of the Dismal Science

by Dwight R. Lee and
Richard B. McKenzie

Cato Institute • 1993 • 180 pages • \$19.95
cloth; \$10.95 paperback

Reviewed by William H. Peterson

Thomas Robert Malthus prophesied failure for mankind and so did much to inflict the invective of "the dismal science" on economics. In his 1798 *Essay on the*

Principle of Population, Malthus held sexual appetite would constantly tend to propel population beyond production, setting in motion the triumph of abject scarcity: subsistence wages, disease, malnutrition, starvation, famine, death, and other unpleasant checks on population growth and rising living standards.

Dwight Lee, the Bernard B. and Eugenia A. Ramsey Professor of Private Enterprise at the University of Georgia, and Richard McKenzie, the Walter B. Gerken Professor of Enterprise and Society at the University of California-Irvine, reject such Malthusian doom and gloom. They hail capitalism as a vehicle for constructive change, as a means of bringing about, in the words of Joseph Schumpeter, "creative destruction."

Still, they accept the Malthusian idea of the reality of scarcity, limits, and opportunity costs. Man just can't do everything and have everything. Scarcity forces him to choose, and in choosing to make mistakes—but thereby to learn, to forge ahead. Choice helps explain why Malthus was wrong.

Lee and McKenzie point out that man is a lot more than a biological organism—worker, eater, baby-maker. Man thinks, and that's precisely what separates him from all other species. He can choose family size. He can choose to save, invest, invent. He can choose to forgo present consumption, create capital, engage in division of labor, trade goods with his fellow man, and accordingly accelerate production and technology.

To be sure, that acceleration involves some inevitable failures—mistakes. Progress is a kind of process of two steps forward and one step back. Lee and McKenzie note, for example, how the automobile inflicted failure on the investors and workers in the once vast horse-and-buggy industry. Even within an industry the pattern of progress and failure holds. The authors cite the brilliance of Nucor Steel in setting up nonunion mini-mills that have given old-line giants USX,

Bethlehem, and Inland Steel a run for their money. Similarly Apple Computer started PC manufacture in a garage to challenge giant IBM, NCR, and Digital Equipment, with Apple itself becoming today an \$8 billion giant.

Failure is part of a bigger picture, advise the authors, conceding that the consequences of competition can result in pain that strikes many as cruel, harsh, and unacceptable. Lee and McKenzie cite Henry Hazlitt's famous one lesson that the major source of error in economic understanding comes from the tendency "to concentrate on . . . short-run effects on special groups and to ignore . . . the long-term effects on the community as a whole."

So the authors see virtue in economic failure and failure in "political virtue." They write: "The biggest threat to the success of the market economy is not the self-correcting failures imposed by market competition, but the self-perpetuating failures imposed by political competition for government protection against the discipline of the marketplace."

That protection helps explain the counterproductivity of government tariffs, industrial policy, and welfare programs. Of our rising welfare underclass, Lee and McKenzie note that food stamps cost \$13.5 billion against an initial program of \$40 million in 1965. The Aid to Families with Dependent Children budget was \$17.8 billion in 1986 compared with \$1.7 billion in 1965. In this same period the annual cost of housing assistance to the poor surged to \$13.3 billion from \$300 million. Apparently Uncle Sam can support whatever size of the underclass he can afford.

I wonder what Parson Malthus, were he alive today, would think of widespread and persistent government failure. □

Dr. Peterson, adjunct scholar at the Heritage Foundation and former Lundy Professor at Campbell University, is working on a book on political economy.

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Volume 43
January-December 1993

*Prepared by John Dogger
and Beth Hoffman*

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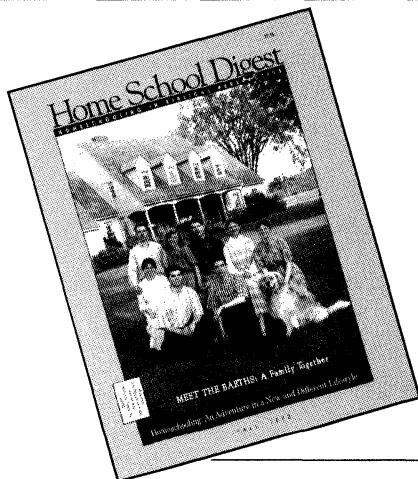
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